NAIOP
MARYLAND CHAPTERS
THE ASSOCIATION FOR COMMERCIAL REAL ESTATE

February 9, 2022

The Honorable Guy Guzzone, Chair
Senate Budget and Taxation Committee
3 West, Miller Senate Office Building
Annapolis, MD 21401

Support w/ Amendment: SB 348– Conservation Finance Act

Dear, Chair Guzzone and Committee Members:

The NAIOP Maryland Chapters represents more than 700 companies involved in all aspects of commercial, industrial, and mixed-use real estate. On behalf of our member companies, I writing to support SB 348 with amendments. The amendment we recommend would provide that no credits certified by the state of Maryland can be traded to entities in other states unless the Department of the Environment has determined that the receiving state has adopted a program to allow the reciprocal trading of credits created in that state on an equal basis.

Related Bill Provisions

SB 348 stands up a structure that leverages private capital investments to lower the costs of the water quality improvements necessary to implement the state's Chesapeake Bay restoration plans. Among its provisions, the bill allows the state to contract with ecosystem credit brokers to install the water quality practices required by those plans. In addition to being paid for the water quality improvements, credit brokers and landowners are permitted to keep the carbon emissions reductions that are a byproduct of forest and water quality practices and sell those credits into out-of-state carbon trading markets.

The bill allows the use of state assets, including state forest lands and dedicated drinking water and water quality funds, to guarantee the emissions reductions of these projects so that they are sufficiently collateralized to qualify for sale in greenhouse gas emissions markets. [p. 25, line 4] Other than credits sold from Rural Legacy easements, the bill does not specify the geography where credits may be sold. [p. 26, line 6] It specifically prohibits the Department of Agriculture cost share agreements and other environmental easements from limiting a landowner's participation in greenhouse gas markets. [p. 4, line 36 & p. 27, line 1] Once certified, carbon credits could then be sold into international carbon trading markets where they will be purchased by individuals and corporations to offset out-of-state carbon emissions.

SB 348 is in many ways an ingenious bill that is the work product of an unusual coalition of environmental non-governmental organizations, state agencies, private equity firms and credit brokers. It promises state agencies access to new funding sources to underwrite the costs of Chesapeake Bay cleanup. The private equity funds that aggregate large scale environmental restoration projects and sell credits into international carbon markets are oversubscribed and would benefit from access to a new pool of credits that can be fed into those markets.

Opportunity Costs and the Transition to a Net-Zero Carbon Economy

While the bill may have a positive influence on Bay cleanup, we believe the committee and bill sponsors should carefully evaluate how selling Maryland carbon credits to offset out-of-state emissions interacts with the transition to a state-wide net-zero carbon emissions economy. A net-zero economy will require that all activities of daily life be accomplished in ways that generate zero carbon emissions or are offset through practices like the purchase of carbon credits. Access to carbon trading markets will be an essential element of climate mitigation. Without offsets and credits, mitigation will be far more expensive and take longer. There are no provisions in the bill to allow regulated, in-state entities access to the carbon markets that will receive credits generated in Maryland.

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The bill makes the current and future carbon emissions reductions on millions of acres under agricultural, Maryland Historical Trust, Rural Legacy, and other environmental easements eligible for sale. Today, the carbon sequestration value of the forest on these lands is counted as emissions sinks in the state's greenhouse gas inventories. These carbon reductions cannot both be counted as in-state sinks and sold to mitigate out-of-state emissions. Existing estimates of in-state sinks would likely need to be adjusted downward, putting additional climate mitigation burdens on other sectors - including sectors that pay the taxes and fees that fund the land conservation easements and the water quality improvement programs leveraged by SB 348.

Despite substantial potential, *Blue Carbon*, the carbon captured by coastal ecosystems, has not been included in the state's inventory of emissions sinks. SB 348 would allow use of state funds to enhance the water quality functions of *Blue Carbon* assets. In addition to being paid for the on-the-ground water quality improvements, compensation to landowners and credit aggregators includes the right to sell associated carbon reductions. To the extent these sales mitigate out-of-state emissions this arrangement will diminish the future role of *Blue Carbon* as a resource in reaching Maryland's greenhouse gas mitigation targets.

Questions Raised by the Bill

Evaluating the bill's influence on the transition to a net-zero emissions economy raises several questions:

+ Who should own a carbon credit that is the byproduct of state spending on Chesapeake Bay cleanup?
+ Should state lands, and dedicated funds be pledged as collateral to guarantee the performance of privately owned carbon credits?
+ Would selling carbon credits from land under Rural Legacy, Maryland Environmental Trust and other state conservation easements on out-of-state trading markets require removing them from the state's greenhouse gas inventory of carbon sinks?
+ What is the carbon credit generating capacity of the state and how long would it take for international markets to deplete local credit generating opportunities?
+ Why should credits be sold into international markets to offset emissions generated out-of-state when regulated in-state households, businesses, governments, and institutions do not have access to those markets and may need those locally sourced credits to meet an economy-wide net-zero carbon emissions target?

We believe amending the bill to include reciprocal agreements that allow regulated entities in Maryland to access the markets that receive credits generated here will serve the purpose of the bill and provide in-state entities access to the tools they may need to transition to a net-zero carbon economy.

For these reasons NAIOP respectfully requests your favorable with amendments report on SB 348.

Sincerely.

T.M. Ballentine

Tom Ballentine, Vice President for Policy
NAIOP Maryland Chapters -*The Association for Commercial Real Estate*

cc: Senate B&T Committee Members
Nick Manis – Manis, Canning Assoc.