

January 6, 2006

MEMORANDUM

TO: Oregon Watershed Enhancement Board

FROM: Ken Bierly, Deputy Director

**SUBJECT: Agenda Item J: 2005-2007 Capital Funds Spending Plan and Signature Projects
January 24-25, 2006 OWEB Board Meeting**

I. Introduction

This report continues the Board discussion regarding the potential uses of Measure 66 Lottery Capital Funds for special or “signature” projects. The Board and staff discussed reserving \$7.5 million in capital funds for such purposes at the September 2005 meeting. This report describes how these funds could be used during the biennium and discusses two potential funding opportunities. This is an information item and requires no Board action.

II. Background

The 2005-2007 Legislatively Adopted Budget for OWEB includes \$41.3 million of Measure 66 Lottery Funds to be allocated by the Board for capital grant purposes. At the September 2005 meeting, the Board considered reserving the majority of capital funds (\$30 million) to be allocated through the four regular competitive grant cycles for restoration and acquisition projects. In addition, staff recommended that the remaining \$7.5 million of capital funds be reserved to be used for special projects that are large-scale or regional in scope, or involve partnerships that do not conveniently fit within the regular OWEB grant process. Staff also proposed to further explore these types of partnership investments for further discussion by the Board.

III. Potential Uses of the Capital Funds for “Signature” Project Ideas

There are major watershed restoration efforts in each part of the state that could benefit from a significant OWEB investment. These projects can be distinguished from other restoration and acquisition grants by their large scale, higher cost, regional impact, and ability to address whole-watershed functions. There are two general categories for opportunities for use of this reserve of capital funds.

First, the funds can be used to support large-scale projects received through the regular grant process that the Board is interested in funding. This would allow the grant cycle to better absorb one or two significant, higher-cost projects without adversely affecting our ability to fund other worthy grant applications. The Paisley Weir project from last biennium provides an example of how the reserve fund can be useful. In that instance, the Board awarded \$1.3 million to the Bagley Ditch Company in the Chewaucan River basin on the condition that all the mainstem fish

passage barriers be removed. The project required a significant portion of funds from that particular grant cycle and resulted in staff “drawing the line” above a number of other good restoration projects. If such a project were partially or fully funded from the reserve of capital funds for special projects, it would reduce the impact on other smaller-scale projects competing under the same grant cycle that merit funding support.

Second, the capital funds reserve can be used to support special, large-scale projects that present themselves through means other than the regular grant process. These types of projects represent significant partnerships designed to address watershed restoration from a comprehensive, whole-watershed perspective. Ideas for these types of projects can be developed by the board and staff or through ideas from our partners and stakeholders.

IV. Proposed Partnerships

Staff are currently exploring two potential partnership opportunities that may warrant future Board consideration for funding with the special reserve of capital funds. One opportunity is to partner with the USDA Forest Service (USFS) to conduct “whole watershed restoration” efforts. The other proposed partnership is with the United States Department of Agriculture (USDA) Natural Resources Conservation Service (NRCS) and the Institute of Applied Ecology to improve wetland restoration sites in the Willamette Valley. Each opportunity would involve an investment of OWEB capital funds that would be matched with other funds to complete restoration efforts at a more comprehensive watershed scale.

A. USFS Partnership

Staff are looking at the potential to participate as a partner with the USFS and others to fund whole watershed restoration efforts. (Attachment A) The partnership would involve the pooling of OWEB and USFS funding sources. These funds would be used in high priority basins and be subject to specific funding criteria identified by OWEB and USFS. Subject to these priorities and criteria, the funds would be administered by an independent non-governmental organization. This partnership will focus on 1) addressing geographic priorities, and 2) accelerating and completing priority work in selected whole watersheds. The combined OWEB and USFS funds would serve as “seed funding” for high priority projects that will be further leveraged at the local level to complete the most-needed work in these watersheds. OWEB funds would allow work on private lands within watersheds comprised of both public and private lands. Immediate priorities are the Middle and North Fork John Day, North Fork Umpqua, South and Mid Coast drainages, and Lower Columbia watersheds. OWEB would receive a final report accounting for the funds and recognition as a major funder for projects implemented.

This proposed partnership could be initiated with \$500,000 of capital funds from OWEB. The partnership could involve a funding commitment of another one million in capital funds over the following two years.

B. NRCS Partnership

Staff are working with NRCS and the Institute for Applied Ecology on a funding strategy to develop a Wetland Reserve Enhancement Program (WREP) for the Willamette Valley. (Attachment B) Under this proposal, OWEB funding would match NRCS funding to enhance plant species diversity and habitat values for wetland-dependent species on 12 Willamette Valley Wetland Reserve Program (WRP) projects by adding native species in

appropriate areas. The project would enhance 595 acres enrolled in WRP in Yamhill, Polk, Benton, and Lane counties and contribute to listed plant species recovery. OWEB funds would be used specifically to implement native plant establishment on these WRP sites.

NRCS has committed the funds for the Willamette Valley WREP. OWEB funds could be used to match the federal funds of \$412,000 and another match of \$130,000. This proposed partnership would require \$250,000 of capital funds from OWEB for this project.

V. Recommendation

Both projects described above present interesting opportunities to address watershed restoration needs at a watershed scale and to leverage significant amounts of other funds. At the same time, staff need to further consider these opportunities to ensure our administrative requirements for disbursement of funds and reporting are met. Staff will work to find the right balance between these interests before bringing a funding proposal before the Board.

No action is requested at this time. Staff anticipate bringing more detailed funding proposals on the two potential partnerships to the Board for its consideration at the March 2006 Board meeting.

Attachments

- A. U.S. Forest Service Partnership Concept
- B. NRCS WREP proposal