

August 31, 2007

## **MEMORANDUM**

**TO:** Oregon Watershed Enhancement Board

**FROM:** Melissa Leoni, Senior Policy Coordinator  
Ken Bierly, Deputy Director

**SUBJECT: Agenda Item N: Oregon Conservation Reserve Enhancement Program  
September 18-19, 2007 OWEB Board Meeting**

### **I. Introduction**

This report discusses the status of the Oregon Conservation Reserve Enhancement Program (CREP) and requests an allocation of \$4 million of Measure 66 capital Lottery Funds for CREP in the 2007-2009 biennium.

### **II. Background**

In 1997, Oregon initiated discussions with the U.S. Department of Agriculture (USDA) about the possibility of developing a state-federal cost share program that focused on improving riparian conditions in agricultural areas of the state. The Oregon Conservation Reserve Enhancement Program was approved in September 1998 with a signing ceremony by then Governor Kitzhaber and the Secretary of Agriculture in October 1998.

As an offspring of the Conservation Reserve Program (CRP), CREP is a voluntary program for agricultural landowners. This unique state and federal partnership allows landowners to receive incentive payments and conservation rental payments from the Farm Services Agency (FSA) for installing and maintaining specific conservation practices. Through the CREP, farmers can receive annual rental payments and cost-share assistance to establish long-term, riparian buffers on eligible land and protect them from domestic grazing. The Oregon CREP was initially developed to address listed salmon streams; the program was later modified to assist in addressing stream water quality issues (primarily temperature). The program uses state funding for partial payment (25 percent) of all conservation activities (fencing, off-stream watering, site preparation, plant materials, planting, etc.).

As early as 2001, some groups expressed concern that the program was not being promoted to sufficiently address the significant agricultural riparian restoration needs in Oregon. As a result of the concerns, and in response to critical review, OWEB funded an evaluation of the program through the Oregon Department of Agriculture (ODA) and Oregon Association of Conservation Districts (OACD). The OWEB Board responded by providing funding for technical assistance (the primary factor limiting participation). OWEB also funded ODA to provide state coordination of the program. ODA led the negotiations with USDA to revise the Memorandum of Understanding to address a number of the other limitations to participation. In 2004, a revised agreement with USDA was signed.

Public interest in the program has increased significantly over the past three years; the number of participants and the number of stream miles treated has grown dramatically along with OWEB's investment in CREP. In the 2003-2005 biennium, the Board invested \$800,000 in CREP cost share payments; between May of 2005 and the present, the Board has allocated a total of \$3.825 million for CREP cost share payments.

### **III. CREP Sign-Up Status**

Landowners visit their local FSA office and fill out paperwork indicating interest in participating in the CREP program. Once planning (conservation, ESA, or cultural reviews) is complete, a contract is executed with the landowner and FSA and a preliminary estimate of cost-share is determined. OWEB also signs a CREP contract with each enrolled landowner. Information on the cost-share estimate is not made available to OWEB at the time the contract with OWEB is signed.

There can be a significant time lag between the time OWEB signs a CREP contract and when an OWEB payment request is submitted. Conservation plan development may take six months to one year. Landowners must complete the fencing and site preparation within one year, with planting the following year (unless an extension is granted by FSA). It takes approximately two years after the contract is signed for OWEB to make a final payment and know with certainty what its contribution is for any CREP contract.

In Federal Fiscal Year (FFY) 2006, 7,000 acres were enrolled; through July in FFY 2007 almost 4,000 acres have been enrolled. OWEB has made payments on some of the 2006 contracts; no payments have been made on the 2007 contracts. Currently, more than 150 landowners are waiting for a CREP contract to be finalized and signed.

### **IV. 2007 Farm Bill and USDA-Oregon Agreement**

The 2002 Farm Bill expires in 2007 and is currently being considered for reauthorization by Congress. The 2004 CREP agreement between Oregon and the USDA expires on December 31, 2007. At the time of writing this staff report, the House of Representatives had passed its version of a 2007 Farm Bill. It now moves to the Senate for consideration. If the Farm Bill is not passed, the federal government is likely to do a program extension and ask the state to extend its current agreement.

Once a new Farm Bill is approved, Oregon and the USDA will need to begin negotiating a new CREP implementation agreement. During this process, OWEB could explore ways to limit or focus its participation in the program.

The goal of Oregon's participation in the CREP program is the re-establishment of riparian habitat on agricultural lands to benefit water quality and fish recovery in Oregon. Staff have identified the following initial principals for negotiating the new CREP agreement.

1. Address the potential conflict between the Farm Bill expiration date in 2013 and that of Measure 66 Lottery Funds in 2014, so that landowner expectations are clear in the event that Measure 66 Lottery Funds are no longer available for Oregon's cost share.
2. Identify ways to limit OWEB's outstanding liability for CREP cost-share payments (flat per acre costs or limiting payments to costs that the USDA doesn't pay).

Staff would like the Board to discuss any additional issues or concerns at the September Board meeting.

#### **V. 2007-2009 Biennium Allocation**

Regardless of the status of the CREP agreement, OWEB is obligated to make payments for signed CREP contracts. This obligation combined with the increasing popularity of the CREP program, has compelled staff to consider new ways to administer the program. Keeping the program within a proposed budget will avoid the need to pull funds away from other capital fund program areas. Towards that end, OWEB is working with the USDA Farm Services Agency to estimate the amount of cost-share that OWEB is responsible for based on the estimated schedules for all approved CREP contracts that have not had all cost-share paid.

FSA estimates that, as of August 2007, the OWEB cost-share obligation for implementation of approved CREP contracts over the next two years is \$2.4 million. FSA also estimates that, as of August 2007, there will be an additional \$600,000 of OWEB cost-share obligation for CREP applications that have yet to be approved and have a signed contract. These figures are only estimates; they do not account for pending contracts that are never approved, higher costs than projected for implementation, increased cost-share rates (likely in the next two years), or future sign-ups that result in implementation during the 2007-2009 biennium.

Given the FSA estimates and OWEB's 2005-2007 biennium experience, staff believe that an allocation of \$4 million of capital funding for CREP is an appropriate budget for the 2007-2009 biennium.

#### **VI. Recommendation**

Staff recommend the Board allocate \$4 million in Measure 66 Lottery capital funding for CREP cost-share payments.