

August 29, 2007

MEMORANDUM

TO: Oregon Watershed Enhancement Board

FROM: Roger Wood, Special Projects

**SUBJECT: Agenda Item J: Special Investment Partnerships
September 18-19, 2007 OWEB Board Meeting**

I. Introduction

This report describes the characteristics and process associated with Special Investment Partnerships (SIP), describes current SIP opportunities, and seeks Board approval of a capital funding reservation for SIP in the 2007-2009 biennium. This report also seeks Board approval of conditional SIP funding reservations for future biennia.

In this staff report, the term “Partnership” is used to mean a real or potential initiative that meets the goals and characteristics of a SIP.

II. Background

At its January 2007 meeting, the Board appointed a SIP Subcommittee and authorized staff to further develop the SIP concept. Since then staff have done significant exploration of likely Partnerships, and the Subcommittee has met six times to discuss goals, program characteristics, process, and specific Partnership opportunities. The full Board has received informational updates from staff at its March and May, 2007 meetings, as well as at the Board Planning Session in July.

III. SIP Characteristics

The goal of the Special Investment Partnerships is the same as that of OWEB overall – to help create and maintain healthy watersheds and natural habitats that support thriving communities and strong economies.

SIP is a tool that OWEB may elect to use in situations where an important and extremely beneficial project (or group of related projects) requires an interaction or funding mechanism different than those provided by OWEB’s grant programs. SIP allows OWEB to be proactive in developing and forming a special partnership with one or more other major funding sources and implementing entities to focus funds and other resources on important outcomes that might be more difficult to achieve by other means.

A. Partnerships through SIP are defined by these characteristics:

1. **Ecological Significance.** The ecological impact, significance of the issues addressed, and the anticipated outcome(s) are large. Ideally, a Partnership contributes to a historic change or surge of progress in, for example, the recovery of a species, the restoration to self-sustainability of an ecosystem, the restoration to health of a river system or watershed, or the launching of an initiative that addresses widespread issues.
2. **Importance of OWEB's Contribution.** OWEB's contribution will be critical, not only to funding the effort, but also to attracting the other support and catalyzing the action necessary for achievement of the objectives. In particular, a SIP investment will tend to launch important efforts that otherwise have been stalled or delayed. SIP is not inherently a capital fund tool; the approach necessary to break the bottleneck, solve the problem, and save the watershed may not be the types of activities that only qualify for capital funding. Given the current scarcity of OWEB non-capital funds, other partners must be relied upon at this time to provide funding for these other critical project needs. It would be better if OWEB had its non-capital funds available to be able to address all aspects of a problem.
3. **Robust Partnerships.** SIP investments will be made where other partners, with significant funding or other contributions to offer, are available, interested, and likely to join the effort within a reasonable period of time. OWEB may be the first to commit major funding to a project, and may need to maintain that commitment for months or even years while the project develops, but the ultimate outcome will be the leverage by SIP of very significant matching contributions from others sources.
4. **Triple Bottom Line.** Projects implemented by Partnerships will produce ecological, community, and economic outcomes – the “triple bottom line” – through a deliberate effort to produce benefits that sustain themselves over time because they've become a part of local custom and culture. The scale, importance, and sustainability of SIP-funded activities will result from – and will attract – strong support and involvement by the affected local communities.
5. **Captures the Imagination/High Visibility.** The scale, importance, and sustainability of a Partnership will attract public attention not only to the work of that one project but also to the importance of watersheds and of watershed enhancement generally. Partnerships will capture and communicate the “big picture” of watershed stewardship and will illustrate the enormous positive benefits of watershed restoration.
6. **Ripeness.** To receive a funding allocation from the Board, a Partnership: (a) needs to be ready to form and begin functioning to finalize objectives and a work plan; (b) must have a likely time frame for implementation and completion that is reasonable and fits OWEB's needs; and (c) must be at the point developmentally where it both needs and can take advantage of the OWEB funding commitment to further the project. OWEB may elect to continue working on Partnerships that have not yet developed to this point, because it is in the nature of a Partnership to tackle big, important work that has so far been too complicated or expensive to develop beyond a certain point.

B. It also is useful to describe SIP in terms of what it is not.

1. SIP is not a new grant program, and thus does not come with the same trappings. There is no imperative to use the SIP tool, nor to route any particular amount of funding through it. There is no requirement for any solicitation of proposals. There is no particular time frame within which actions must be taken or decisions must be made.
2. SIP is not an alternative to the regular grant program for dealing with big-ticket grant proposals. The Board may elect to establish a special review pathway for very large, complicated, or costly project proposals, but SIP is not that pathway.
3. SIP is not a one-time-only (September 2007) agenda item in earmarking blocks of funding. The tool will remain available to the Board indefinitely, and funding commitments will be made and adjusted in the future whenever the Board wishes.

IV. SIP Process

The SIP process involves identifying and evaluating potential SIP investments, developing Partnerships, committing funding through Board decisions, formalizing agreements, and administering agreements.

A. Identifying and Evaluating Potential Partnerships

Partnership identification will be primarily a staff, Subcommittee, and Board effort involving outreach and the discussion of needs, opportunities, outcomes, and partnership potentials. As discussions evolve, staff will present the Subcommittee with summaries of each concept following this standard format:

1. Measurable Ecological Outcomes. A list of outcomes or products with units or standards of measurement. Described partly in terms of critical needs or priorities for species, habitats, or ecosystems; also in terms of consistency with Measure 66, prominent basin plans, recovery plans, and other leading action plans.
2. Impact of SIP Investment. Any special leverage or pump-priming issues. Any critical needs, gaps, or bottlenecks that SIP will address.
3. Likely Partners. For each, a description of roles and contribution: e.g. funding (secured, committed), design, in-kind contribution, landowners, project management, project construction/implementation, permitting entity, long term maintenance, etc.
4. Sustainability. In terms of economic benefits, community capacity benefits, potential for education and outreach, and sustainability after OWEB's expenditure.
5. Implementation Activities. Methods and measures; what will be done and in what location (e.g. watershed, basin, affected waters, affected ecoregion).
6. Ripeness and Timing. What's already in the works? When will it or should it start? How long will it take for final design, final permitting, final fund raising, contracting, implementation, and evaluation? Where will the project be at the beginning of 2014?
7. Costs. Total for whole project; amount of OWEB funding requested; and when it will be needed.

For the first four, OWEB's criteria for evaluating the merit and potential is suggested by the SIP characteristics described in Section III above. "Implementation activities" will be evaluated primarily on whether the proposed methods, measures, and locations are appropriate to the need, opportunity, and project objectives. Any on-the-ground restoration

activities must be technically sound. “Ripeness and timing” will be evaluated primarily on whether the partnership is ready to form and begin functioning, and whether the likely time frame for implementation and completion is reasonable and fits OWEB’s needs. “Costs” will be evaluated primarily on the appropriateness of the total cost, the amount of contribution leveraged by OWEB’s contribution, the appropriateness of the OWEB contribution in terms of the outcomes purchased, and whether the need for OWEB funds matches OWEB’s ability to provide them. The technical evaluation of “Implementation Activities” will also scrutinize the appropriateness of unit-costs and line-item budget amounts (particularly those associated with the use of OWEB’s funds).

B. Developing Potential Partnerships

Experience has shown that shaping Partnerships requires significant discussion and communication. Application of the criteria described above raises questions that must be answered; the answers lead to refinements in both the Partnership concept and the nature and function of the Partnership. OWEB’s expression of serious interest in a potential Partnership has the effect of galvanizing other partners’ energy and efforts to address unresolved details.

With most candidate Partnerships, this will result in an iterative process in which OWEB’s SIP criteria will be applied and re-applied several times as the Partnership evolves. For the candidates that make the grade, each re-examination will reveal fewer outstanding issues and a more satisfactory Partnership. For other candidates, progress will be slower; for others, application of the criteria will reveal that it is not suitable for SIP. The Subcommittee and staff will determine which candidates should be pursued as being more promising.

C. Board Funding Decisions

The SIP Subcommittee will decide when the evaluation criteria have been sufficiently met to warrant sending a recommendation to the full Board. That recommendation will endorse the merit of the Partnership and the value of likely outcomes, and will specify:

1. The objectives of the Partnership.
2. An amount of funds to be allocated.
3. The timetable for further development of details and of fund allocation.
4. Any special conditions on the funding award.
5. Any special processes or other considerations for implementation and oversight.

Typical conditions on a SIP allocation or earmark might include that:

1. Suitable partners must sign a Partnership Agreement by a certain date.
2. Other partners must commit to making sufficient contributions.
3. Sufficient funding for full implementation must be committed by a certain date.
4. Any actions of the implementation work plan that OWEB funds will be used for will be subject to detailed scrutiny and approval by a technical review process designated by OWEB.
5. Implementation must proceed in a timely manner.

The funds committed to a particular Partnership may need to be reserved by OWEB for a significant period of time before the Partnership fully “ripens” and on-the-ground implementation can begin. The Board may also be asked by staff to act on recommendations

to earmark funds from future biennia for certain Partnerships. Such earmarks cannot be binding upon OWEB because we lack the legislatively granted authorization to receive and expend funds from future biennia. However, the effectiveness of SIP and the ability for OWEB to promote and negotiate Partnerships depends on our ability and willingness to at least express the intent to reserve future funds.

D. Partnership Agreements

Partnerships approved by the Board will be formalized through signed Partnership Agreements (Agreements) that will specify:

1. Goals, objectives, and quantifiable outcomes.
2. Roles and responsibilities of the partners.
3. Approximate timeframes for further project development, funding, implementation, and production of outcomes.
4. Funding amounts, sources, and schedules.
5. Appropriate uses of OWEB funds.
6. Conditions placed by OWEB on its funding.
7. Processes for partner interaction, adaptive management, and progress reporting.
8. Processes for fiscal accounting and reporting.
9. Provisions for monitoring implementation and effectiveness and for reporting results.
10. Processes for involving interested and affected publics.
11. A work plan containing details about implementation sites, activities, budgets, managing entities, time frames, and outcomes.

E. Administering Agreements

An Agreement may or may not be the only instrument by which OWEB funds are disbursed. Additional contracts may be necessary to implement the work plan. OWEB staff will oversee and manage the Agreements, any subsequent contracts, and any processes necessary to review site-specific technical details as they develop. Staff from all OWEB sections will be involved to some extent, but SIP oversight will require the dedication of at least one staff person. To the extent possible, OWEB will utilize watershed councils, soil and water conservation districts, and other locally based groups to serve as project managers and conduits for implementation of the Agreement.

Funding distributions within a Partnership may shift during the life of the Agreement by mutual agreement. Also, the total dollar amount of OWEB's funding commitment to a Partnership may be changed by the Board over time.

F. The Effect of a Partnership on Other Project Proposals

A SIP allocation does not inherently preclude or disadvantage other proposals that might be submitted to OWEB's grant programs from the same geographic area or relating to the same watershed objectives or issues. However, OWEB should not ordinarily accept for review in its other grant programs a request to fund work that is already included in a SIP work plan. If a Partnership involves work at a number of different sites, the Agreement will identify the sites and work that are part of the Partnership and the funding associated with those sites and work. The Board may decide that OWEB's investment in a particular Partnership is all the

funding OWEB will contribute to that particular set of objectives, at least for a period of time.

The Board may elect to invite proposals designed to complement, enhance, expand, or otherwise build on a Partnership investment. In such an event the Board may identify any special review or evaluation criteria or weighting to be applied. Otherwise, every project proposal must stand on its own merits as evaluated through the regular review process. A Partnership will always be open to suggested expansions of the Agreement to incorporate additional sites or work. Each such suggestion will be evaluated on the basis of:

1. The value added in terms of enhanced outcomes.
2. The funding and other resources offered by the applicant(s).
3. The ability of the SIP to absorb more work or complexity.
4. The technical quality of the proposal.

V. Current SIP Partnership Opportunities

The following list briefly describes the current SIP opportunities being developed by staff and the Board Subcommittee. All are in different stages of maturity or “ripeness.”

A. Willamette River: Hydrologic Reconnection for Habitat and Water Quality.

The Willamette River SIP has evolved into a focus on restoring hydrologic complexity and connection in the bottom lands, the so-called historic “meander corridor” of the main stem and its tributaries. Many interests overlap there, many watershed functions in need of restoration and protection are best addressed there, significant work has been done there to identify opportunities and constraints for site-specific action, and many partners are ready to join or assist a Partnership.

B. Deschutes River: Restoration of Fish Passage, Habitat, and Flow.

OWEB’s Deschutes SIP would provide funding for passage, habitat, and flow enhancement projects to re-establish anadromous fish runs and to enhance resident populations in tributary streams on both the eastside and the westside of the Deschutes, including the Crooked River Subbasin.

C. Rogue River: Restoration of Fish Passage, Habitat, and Flow.

The Water for Irrigation, Streams and Economy (WISE) project in the Bear Creek and Little Butte Creek watersheds aims to improve conditions for anadromous and resident fish by improving in-stream flow, removing passage barriers, improving water quality, and restoring aquatic habitat, all done in a way that also improves irrigation system reliability and that contributes generally to local economic stability.

D. Biomass Utilization: Improving Range and Forest Health.

One promising set of solutions to the dangerous and unhealthy over-stocking of forest and rangeland fuel would enhance markets for excess biomass of various kinds in order to create an economic engine to help fund removal of the fuel and restoration of the harvest sites. The commercial activities involved offer the double benefit of enhancing the economic stability of rural local communities.

E. Coastal Lands: Estuary and Tideland Restoration and Protection.

Estuaries in Oregon have suffered from diking, draining, filling, and pollution. Notwithstanding various protections offered through land use and other programs, there is much yet to be done to restore the estuarine systems. The SIP process has begun to explore a Partnership to better organize acquisition and restoration efforts. This might include addressing the lack of skilled staff necessary to document landscape factors, develop effective working relationships with landowners and local leaders, and design restoration proposals that address the complexity of local situations.

F. Klamath Basin: Restoration of Fish Passage, Habitat, and Flow.

Quiet negotiations are now underway regarding the re-licensing of the Klamath River PacifiCorp's dams that block anadromous fish. If an agreement to remove the dams or create fish passage is reached, significant investments above the dam sites will be needed to make sure that the newly accessible parts of the Klamath Basin have the habitat, passage, water quality, and in-stream flows to support re-establishment of healthy runs.

VI. Next Steps

Of the six potential Partnerships above, the Willamette, Deschutes, and Rogue have ripened most quickly over the past half year. The other three Partnerships have also evolved; all six continue to develop. Staff will continue to work with our partners to refine these ideas and will return to the Board in January of 2008, with more information on the Partnerships and their projects, and more specific recommendations for funding reservations or allocations.

The stand-out among the six is the Willamette Partnership. In this case OWEB has assumed a leadership role in convening and guiding several key partners. While important details are yet to be worked out, staff believe it is time for OWEB to make a funding reservation that can illustrate our commitment in a way that will also help maintain our leadership of the Partnership. We expect that others in the Partnership will follow suit with funding allocations of their own once they see OWEB's commitment.

VII. Recommendation

Staff recommend the Board:

- A. Reserve \$12 million of capital funds for SIP for the 2007-2009 biennium;
- B. Reserve \$6 million of the \$12 million for implementation of a Willamette River Partnership;
- C. Allocate \$200,000 of non-capital funds (75 percent from recaptured non-capital funds) for SIP administration and the costs associated with fully developing Partnership Agreements and work plans; and
- D. Express support for tentative future reserves of at least \$12 million per biennium from capital funds in the 2009-2011, 2011-2013, and 2013-2015 biennia.