

August 26, 2005

## **MEMORANDUM**

**TO:** Oregon Watershed Enhancement Board

**FROM:** Allison Hensey, Policy Specialist

**SUBJECT: Agenda Item E: 2005-2007 Non-Capital Fund Spending Plan  
September 13-14, 2005 OWEB Board Meeting**

### **E-6. Allocation of Non-Capital Funds for E2 (Environment and Economy) and the Local Innovation Fund**

#### **I. Introduction**

This staff report describes advice from the E2 (Environment and Economy) Working Group, and provides recommendations to the Board for implementation of the E2 concept. Recommended implementation includes issuing a Call for Innovation to solicit ideas for demonstration projects that would benefit the local watershed, economy, and community. Implementation would also include establishment of a Local Innovation Fund to be funded by OWEB and other partners to provide support for development and implementation of the most promising demonstration projects.

#### **II. E2 and the Local Innovation Fund**

Because, through this project, OWEB would seek innovation from demonstration projects in a way that it usually does not see in its current grant program, staff recommend establishing a Local Innovation Fund. The Local Innovation Fund would include funding from many partners, and would invest in demonstration projects that explicitly benefit the watershed, the local economy and the community. OWEB's funding would be used to support the core watershed restoration elements of the demonstration projects. OWEB would seek partners in the Local Innovation Fund who invest in economic development, community building, and sustainability. The funding from OWEB's partners in the Local Innovation Fund would be used to support the elements of the demonstration projects needing non-capital funding, or that are not as squarely within OWEB's core mission of watershed restoration and protection.

#### **III. Background**

In spring 2004, the OWEB Board began a discussion about providing funding to projects that have explicit watershed, economic, and community benefits. The projects OWEB funds already have ancillary benefits to the local economy and community, as noted in "Understanding the Community Economic and Social Impacts of Oregon's Watershed Councils," Hibbard and Lurie (2005). However, the purpose of the funding would be to encourage innovative watershed projects with a more clearly defined economic and community benefit than OWEB currently sees in most of its grant applications. Projects could include business enterprises whose product

provides a watershed benefit, projects that address entrenched economic barriers to watershed restoration or protection, or large-scale restoration projects that include significant economic benefits. By encouraging projects in which the economic, community, and watershed goals are intertwined, OWEB may help to create an economic and social incentive for watershed restoration and protection to occur on a larger scale and longer time frame than could be accomplished by an investment of the same amount of funding in a restoration project alone.

#### **A. Working Group**

At its January 2005 meeting, the Board indicated support for exploring this concept further, and asked staff to convene a group of “knowledge holders” with expertise in the intersection between watershed restoration and economic development to discuss the following question:

Can OWEB improve the economic and community benefits that accrue from its investments in watershed restoration while remaining true to its core mission?

Staff convened a Working Group to discuss this question. Members of the Working Group are listed below.

#### E2 Working Group

Diane Snyder, OWEB Board member, Wallowa Resources

Dianne Guidry, OWEB Board member, Natural Resources Conservation Service

James Honey, Sustainable Northwest

Eric Nusbaum, Siuslaw Soil and Water Conservation District

Jennifer Hampel, Coquille Watershed Association

Ed Glad, Pacific Northwest Regional Council of Carpenters

Glenn Montgomery, Sustainability Coordinator, Oregon Economic and Community Development Department

Cassandra Moseley, Professor, University of Oregon

Brent Davies, Ecotrust

Adam Zimmerman, ShoreBank Enterprise Pacific

Marcus Kauffman, Watershed Research & Training Center

The Working Group met on June 9 in Salem. Under the guidance of OWEB Board member Diane Snyder, OWEB Director Tom Byler, and Policy Specialist Allison Hensey, the group discussed whether this is a concept OWEB should pursue further, and the kind of outcomes the Board should seek in watershed projects that provide more explicit economic benefits.

The Working Group concluded that OWEB can and should encourage and support projects to enhance the watershed that also have explicit benefits to the economy and community. The most persuasive reason stated by the group to move forward can be summarized, in short, as:

**Healthy watersheds can not occur without healthy economies and communities.**

The Working Group discussed the fact that individuals must first make a living before they can turn their attention to other issues such as community or the environment. If a local economy is struggling, or if there is significant social conflict, it is more difficult for individuals to conduct their lives and businesses (or develop local policies) in a way that sustains and benefits the watershed. However, if individuals can find a way to make a living that benefits the watershed, if current economic barriers to watershed restoration or protection can be reduced or removed, or if obstacles to collaboration among interest groups

can be addressed, then watershed health not only has the potential to become an economic driver, but there are economic and social incentives to sustain watershed health over the long term. By linking watershed, social, and economic health, traditional conflicts between the environment and the economy may be reduced.

The Working Group also advised OWEB that if a community does not invest in bringing together the diverse groups and interests that share a watershed's resources to plan for the use of those resources, then it may not have the capacity to sustain watershed and economic health over time. During its discussion, the Working Group recommended that OWEB include supporting community capacity as a goal of the E2 project, in addition to supporting watershed and economic benefits. As the Working Group noted, a strong community capacity to bring together diverse, knowledgeable and interested citizens and leaders to identify the fundamental drivers of watershed, community and economic concerns, and develop and implement a shared vision for the future, is an essential element for long-term watershed sustainability and resilience. Without this capacity, attempts to improve watershed health and the local economy are less likely to succeed. Furthermore, community capacity developed to address a particular issue or discrete project can increase a community's capacity to work collaboratively on broader challenges as relationships, trust, and vision are developed.

Currently, the majority of OWEB's projects only explicitly address one of the three parts of the whole described here: watershed health. While most of the watershed projects receiving funding from OWEB also provide benefits to the community and local economy, these benefits are not explicit goals of the projects. The purpose of providing funding for E2 projects would be to include the other two parts of the whole, the economy and the community, as explicit goals of OWEB's investment, while maintaining watershed health as the central purpose of OWEB's investment of funding.

#### **B. E2 Project Outcomes**

The Working Group recommended the following possible outcomes for an E2 project. While each of the outcomes may not be present in every project, these are the kind of outcomes potential projects should seek to accomplish.

- **Supporting and fostering innovative enterprise that accomplishes restoration**
- **Improving and sustaining local quality restoration jobs**
- **Sustainable economic viability for private landowners from land stewardship**
- **Increased community capacity to develop and implement a sustainable vision for the community**

#### **IV. Project Examples**

The broad outcomes identified by the Working Group mean that potential projects will take many forms. The purpose of the demonstration project is to encourage innovation and creativity, and not to prescribe a specific project. However, to better illustrate the goals of a demonstration project for discussion purposes, it is helpful to have examples. Following are two examples of the kinds of projects that could accomplish the outcomes identified by the Working Group. Additional examples are contained in Attachment A to this report.

### **A. Sustainable Agriculture Branding and Marketing (Oregon Country Beef, Coquille Valley Dairies)**

OWEB often provides funding for watershed restoration and protection projects on working farms, ranches, and forestland. Occasionally, these projects help the landowner to receive certification to market their product as sustainably produced, thereby receiving a higher price for the product. OWEB's funding not only enhances watershed health, but also benefits the landowner economically, and provides an economic incentive for watershed stewardship to continue over the long term. One of the significant challenges for agricultural producers is changing prices in a global commodity market. Farmers, ranchers and foresters who are able to make themselves more attractive to the consumer based on their stewardship of the land, and receive a higher price outside of the general commodity market because of these factors will do better economically, in addition to providing watershed benefits. Oregon Country Beef, now known as Natural Country Beef, is a good example of this model. Several dairy farms on Oregon's South Coast are currently transitioning to organic operations to take advantage of the exponentially growing demand for organic milk nationwide and receive a higher price for their product. If OWEB is able to encourage and assist with this kind of transition in a way that benefits both the watershed and the local economy, it will provide an economic incentive for long term watershed stewardship.

### **B. Creation of Market for Juniper Products**

OWEB funds juniper removal projects where juniper has exceeded its natural range to restore the hydrology of an area and reduce competition for native plant species. If a business is able to develop a market for a product using the juniper that has been removed, then that economic driver means that juniper removal is likely to occur on a larger scale than OWEB alone could fund. If OWEB is able to provide assistance to such a business to increase its chance of success, and to ensure that it targets juniper removal in the appropriate areas, then the watershed and local economic benefits could be greater than those provided through restoration grants alone due to the economic incentive for continued juniper removal.

## **V. Partners**

Partners with expertise and funding will be critical to the success of a demonstration project. OWEB does not have the expertise alone necessary to evaluate the kind of proposals the demonstration project will seek. Similarly, funding partners will be important to provide much of the non-capital funding that may be requested for project components such as business plan development, planning, facilitation, market research, education and outreach, or training, and funding for project elements that are not as clearly within OWEB's core mission. If the Board decides to move forward with a demonstration project, staff will seek formal partners for the project from other state agencies, federal agencies, foundations, and non-profits to provide expertise and funding.

## **VI. Call for Innovation**

One method for funding several demonstration projects that maximizes the potential for creative, well thought-out proposals is a Call for Innovation. OWEB could issue a Call for Innovation, seeking proposals of no more than eight pages describing the goals and methodology of a project. The Board could then provide a small amount of non-capital funding to the proponents of the top two or three proposals to allow them to develop their concept more fully, so that they are able to come back to the Board with a fully researched project that will be ready to begin upon investment by the Local Innovation Fund. This method recognizes that the kind of project OWEB is seeking is generally complex, with many elements and partners. Providing a small

amount of funding to allow a project to be thoroughly developed increases its chances of success. This approach also allows the Board and its partners to have input in its development to ensure that it advances the goals of the partnership, and that the project plan is sound.

The Local Innovation Fund could provide funding to the top few proposals to develop their project plan over the course of 5-6 months with Board and partner input. One possible timeline for this method follows:

October 14, 2005	Issue Call for Innovation
December 1	Short Proposals Due
January 15, 2006	OWEB Board selects 2-3 proposals for further development
June 16	Full proposals due to OWEB
July-August	Evaluation of full proposals by OWEB staff and partners for recommendation to Board
September 14	OWEB Board evaluates final proposals for funding decision by Board and its partners in the Local Innovation Fund

## **VII. Recommendation**

Staff recommend Board approval of creation of a Local Innovation Fund to provide funding for the E2 project described above. If the Board decides to pursue the project, staff recommend the Board reserve \$50,000 in non-capital funds to create the Local Innovation Fund. Staff will seek partner funding to augment this amount, which will provide initial funding for full proposal development, and eventually will provide demonstration project funding.

Attachment

A. Additional Project Examples

**E2/Local Innovation Fund  
Additional Project Examples**

**A. Pollution Control Incentives**

The oyster farmers of Willapa Bay depend on clean water to produce their world-class product. If Willapa Bay's water becomes polluted, the oyster farmers lose their crop. A few years ago, local leaders noticed that septic tank failures were becoming a problem on the properties surrounding Willapa Bay. Local regulations require landowners to repair their septic system prior to selling their land. Due to repair costs, most landowners wait until they sell their property to repair the septic system. To avert the risk of water pollution levels that would make local oysters unsaleable, Shorebank Enterprise Pacific Bank and its partners found grant funding to allow them to provide low interest loans to homeowners willing to repair their failing septic tanks in areas critical to water quality affecting the oyster farms now, rather than waiting until they sell their property. Loan repayment is required upon sale of the property. This program has been very popular with local landowners, helping them to protect their property values and avert the more costly clean-up expenses of a septic system failure. The program helped to protect the water quality in Willapa Bay, benefiting resident fish and wildlife populations, human health, and the economic well being of the local oyster farms.

**A. Family Wage Watershed Restoration Work Crew**

A watershed restoration work crew that lives in and has knowledge of the local region, has experience and training in doing restoration in that region, and makes a family wage, will likely do a better job with more lasting watershed benefit than a more transient, poorly paid work crew. The presence of a local, experienced crew also maintains a knowledge base about local watersheds in the region. The existence of a stable, fairly paid local restoration work crew can benefit both the watershed and the local economy and community.

Barriers to the creation and maintenance of local work crews include the cost of managing the crew, marketing the crew to ensure a steady stream of work, and training the crew to do a range of restoration and monitoring projects. Ideally, the fees charged for the work crew's time would cover these costs, and even provide some operating revenue for the entity that manages the crew, whether it's a private company or a watershed council. Currently, only one watershed council, the Coquille Watershed Association, maintains a full time, family wage work crew. If OWEB is able to assist in providing funding for training or market development and research to establish or enhance the development of this kind of work crew, it could benefit local watersheds, communities, and economies.

**E. Lake County Forest Restoration, Jobs, and Community Capacity**

Opportunities for traditional economic diversification strategies in Lake County are limited, due to its remote location. Global competition, maturation of the timber industry and increased environmental pressure forced the closure of several mills by 1996.

Environmentalists had been concerned for some time about the health of the local public forestlands, in particular, the Forest Service's "Sustained Yield Unit." In 1996, as the Forest Service's SYU came up for re-authorization, the local community was concerned that the SYU would be lost, forcing the closure of the last local mill, and further loss of jobs. Local

leaders engaged with the Forest Service, regional and national conservation groups and the local government in order to jointly assess the state of the resource, and examine possibilities for retaining and re-tooling the local timber economy. Through a process of dialogue and collaborative meetings, the Lake County Stewardship Group was formed, and it identified numerous projects that would experiment with active watershed restoration, while maintaining local jobs. The group engaged in numerous forest restoration projects (largely small diameter removal and re-introduction of fire), with multi-party monitoring. While the impacts of these projects were limited on the landscape, they served as a basis for developing dialogue and mutual understanding between the various entities that intersected over management of the Forest and SYU. The group has developed a long-term vision for the management of the SYU (now called a Stewardship Unit), endorses and supports a local organization that helps local contractors gain access to restoration contracts with the Forest Service, and has kept the local mill operating while engaging in strong restoration activities on the SYU. The group has also provided strong support for the development of a biomass generation facility, high-school science enrichment programs, and other economic and social benefits.