



# Oregon

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## Oregon Watershed Enhancement Board

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August 19, 2010

## MEMORANDUM

**TO:** Oregon Watershed Enhancement Board

**FROM:** Lauri Aunan, Grant Program Manager

**SUBJECT: Agenda Item F: OWEB Grant Award Recommendations Overview  
September 14-15, 2010 OWEB Board Meeting**

### I. Introduction

This staff report describes the evaluation process for the capital and non-capital grant applications submitted by the April 19, 2010, deadline. The report also includes budget considerations and a summary of funding recommendations.

### II. Background and Summary

By the April 19, 2010, grant deadline, OWEB received 156 applications requesting more than \$25 million. The breakdown by region, project type, and dollar amount is shown on the attached table. (Attachment A)

Restoration and Acquisition applications that use capital funds were solicited in this funding cycle, as were Technical Assistance applications that use non-capital funds. After being screened for eligibility and completeness, the applications were sent to the six Regional Review Teams (RRTs), which reviewed them for merit and made prioritized funding recommendations to OWEB staff. OWEB staff considered funding availability and integrated the separate RRT recommendations into the staff funding recommendation to the Board.

Following this overview are staff reports containing the OWEB staff funding recommendations for each region.

### III. Review Process

The applications were screened for completeness, categorized by application type, and distributed to the RRTs. About half of the reviewers are now receiving CDs of the applications, which has reduced OWEB's copying and mailing costs (the other half prefer hard copies). OWEB staff in each region then scheduled visits to as many sites as possible, emphasizing new Restoration applications, Acquisition applications, and the more complicated applications. All RRT members were invited on these visits and some were able to participate.

In their RRT meetings, reviewers considered the ecological significance of the proposed project, technical merit, feasibility, likelihood of success, experience of the applicant, and whether the

budget supports the proposed work. Reviewers were asked how the applications address watershed processes and functions. After classifying Restoration and Technical Assistance applications as “do fund” or “no fund,” the RRTs were then asked to prioritize the applications recommended for funding. For Acquisition applications, the RRT only discussed the ecological and educational value of the proposed acquisition and did not make funding recommendations.

The RRT recommendations are included in each applicable regional staff report in this agenda item. The tables attached to each regional staff report identify the staff-recommended funding amount and note whether any grants include funding conditions.

Summaries of the RRT evaluations and funding recommendations were distributed to all applicants whose proposals were reviewed by that RRT. Written comments received from applicants regarding the RRT or staff recommendations will be forwarded to the Board prior to the Board meeting.

#### **IV. Acquisition Applications**

Nine new land acquisition applications were reviewed during this grant cycle. One of the nine applications received in April 2010 is not recommended for funding. Five applications have been withdrawn by the applicants. One application is recommended for deferral, one is recommended for further consideration in the Willamette SIP, and one requires submission of an updated application in order to be considered further. These applications are described in the appropriate regional staff reports.

Two acquisition applications previously submitted and deferred by the Board, the Necanicum Forest Acquisition, application 209-101 in Region 1, and the Nehalem Bay Wetlands Conservation Project Phase II, application 210-106 in Region 1, are ready for a funding decision at this time. The projects are described in the Region 1 staff report.

The application review process and an update about OWEB’s acquisitions program are described in the following sections.

##### **A. Application Review Process**

By rule, land acquisition projects undergo a multifaceted review. Applications are first reviewed by a Board Acquisitions Subcommittee, which recommends whether or not staff should proceed with a due diligence review of the proposed acquisition. Soon thereafter, applications are reviewed by the RRTs for ecological and educational values. The Subcommittee may ask for additional information from the applicant or may ask that specific questions be addressed by the RRT.

If the due diligence review is recommended, staff request an appraisal report, title report and exceptions, option, donation disclosure, environmental site assessment, and proposed conservation easement. An independent review appraiser evaluates the appraisal report. OWEB’s legal counsel at the Department of Justice reviews the title report, exceptions, option agreement, and conservation easement. The environmental site assessment is reviewed by staff at the Department of Environmental Quality.

After the due diligence review is complete, the Subcommittee synthesizes the proposed project’s ecological and educational benefits, applicant capacity, partnerships, local support, local and regional community effects, RRT evaluation, and due diligence results into a

funding recommendation to OWEB staff. Staff then consider all evaluation criteria, the Subcommittee's recommendation, and available funding resources to develop a funding recommendation to the full Board. The staff funding recommendations are summarized in a separate section in the appropriate regional staff report.

### **B. Acquisition Program Status**

When OWEB's land and water acquisition grant program was started in 2000, and for several years thereafter, OWEB received an average of three acquisition applications per grant cycle. Interest in OWEB acquisition grants has increased significantly since then. Between September 2008 and April 2010, OWEB received 28 acquisition applications or an average of seven applications per grant cycle.

The increase in acquisition grant applications has generally been accompanied by an increase in the amount of funds requested by each application. Of the ten applications received in April 2010, five requested more than \$1 million. Furthermore, OWEB has recently received numerous acquisition applications that propose high quality projects. These factors, combined with OWEB's current budget shortfall, have created intense competitive pressure in the acquisitions program.

The growth of the acquisitions program has resulted in OWEB staffing resources that are insufficient to keep up with the demand applicants place on the program. The program is currently staffed by one full-time position, the Acquisitions Specialist, with a temporary half-time administrative support position that was added in 2010.

Currently, the Acquisitions Specialist is working on due diligence for eight regular acquisition applications and two Deschutes Special Investment Partnership acquisition projects. The Acquisitions Specialist is also working to close three acquisitions previously funded by the Board.

OWEB's acquisition projects are complex and time-consuming, because unlike other OWEB investments, acquisition project benefits are required, rather than expected, to last over time. It takes approximately 150-200 staff hours, from receipt of a new application to transaction closing, to implement an OWEB acquisition project. This significant investment of time is necessary to ensure the soundness of OWEB's investment of Lottery funds. It is essential that each project is thoroughly vetted and the transaction is structured appropriately to protect conservation values in perpetuity.

Due to the combination of increased demand, limited staff capacity, and funding shortfall, staff and the Acquisitions Subcommittee are forced to focus the program on only the most competitive grant applications. As a result, for the current grant cycle the Subcommittee and staff determined not to proceed with due diligence review for a number of applications that did not rank as highly or have significant unresolved issues.

## **V. Budget Considerations**

### **A. Capital Funds**

In June 2010, the Board established a capital funding target of \$8.25 million for each of the two remaining grant cycles for the 2009-2011 biennium (April 2010 and October 2010).

Given the unprecedented economic downturn, it has been difficult to predict with certainty the amount of capital funds available for the biennium. The most recent revenue forecast in May 2010, and the most recent distribution of Lottery revenues in August 2010, both show revenues up by a fraction. However, unless there is a significant increase in Lottery revenues, capital funds will still fall short of the projected revenues reflected in OWEB’s 2009-2011 budget. Staff estimate the amount of capital funds available for grant purposes for the remainder of the biennium to be between \$16.1 and \$18.1 million.

Staff expect that \$1 million in acquisition applications could be ready for Board consideration at the January 2011 meeting. If the Board approves staff’s acquisition recommendations in September, the total dollar amount of deferred acquisitions will be approximately \$4.4 million.

Staff recommend funding for 73 of the 81 Restoration applications recommended for funding by the RRTs and two Acquisition applications deferred earlier by the Board in September 2008 (Necanicum 209-101) and March 2010 (Nehalem Bay Wetlands, Phase 2, 210-106). Staff recommend funding these grants through the expenditure of \$8,140,432 in capital funds. This is \$109,568 less than the target amount of \$8.25 million per cycle.

**B. Non-Capital Funds**

Table 1 shows the total amount of non-capital funding reserved for Technical Assistance applications for the April 2010 grant cycle. This reserve was approved by the Board in June of 2010 and was a conservative approach based on the uncertainty of Lottery revenues and the level of PCSRF funding. Table 1 also shows the total dollar amount of non-capital applications recommended for funding by the RRTs.

**Table 1. April 2010 Grant Cycle Non-Capital Budget Reserve and RRT Recommendations**

<b>Grant Type</b>	<b>Budget</b>
Technical Assistance	\$450,000
Total RRT “Do Fund”	\$926,206

As discussed above, there is some uncertainty about the exact amount of Measure 66 funds that will be available to OWEB for the remainder of the biennium. OWEB typically runs short of Lottery non-capital funds in the last year of the biennium. Staff currently estimate that \$847,000 in non-capital Lottery funds and \$224,673 in non-capital Research Account funds are available for the remainder of the biennium, for a total of \$1,071,673.

OWEB has relied on an infusion of Pacific Coastal Salmon Recovery Funds (PCSRF) to augment non-capital funding in the second half of the biennium. Due to the concern over significant budget shortfalls for the 2011-2013 biennium, there is a question to what extent the Legislature wants to reserve Fiscal Year 2010 PCSRF for use in the 2011-2013 biennium, which would make some or all of those funds unavailable for the 2009-2011 biennium.

Staff recommend funding 13 of the 25 Technical Assistance applications recommended by the RRTs through the expenditure of \$450,093 in non-capital funds. OWEB also uses non-capital funds for non-capital equipment and education and outreach elements of Restoration applications. Based on the limited availability of non-capital funding, staff recommend

funding only essential non-capital equipment elements of Restoration applications in this cycle, and do not recommend funding any education and outreach elements. These non-capital costs are identified in the tables attached to each regional report and total \$5,300. The total recommended non-capital award is \$455,393.

If the Board approves the September 2010 non-capital funding recommendations, staff estimate having about \$616,280 in non-capital Lottery funds remaining for the October 2010 cycle. The Board has approved an October 2010 offering of Technical Assistance, Monitoring, and Education/Outreach grants, with a funding target of \$2.25 million “dependent on new PCSRF funds.” Unless the new PCSRF funds are made available, OWEB’s available funding for the March 2011 Board meeting will fall far short of the funding target. Further, the Legislature will convene in January 2011, and unallocated non-capital funds are more vulnerable to legislative appropriation.

## **VI. Point of Interest: The Role of Big-Ticket Projects**

Over the past several years, OWEB has seen a greater number of more complex, large-dollar projects vying for the available resources. The challenge has been to balance support for smaller, shorter-term opportunities with support for larger, longer-term projects, while also making award decisions that assure the larger projects will receive the funding they need to succeed. This becomes even more challenging this biennium where OWEB has fewer capital funds.

In previous cycles, the Board has approved “big-ticket” projects with the condition that only part of the funding is awarded now, with the remaining project funds being awarded at a future Board meeting. This “staged award” approach allows OWEB to continue to fund a number of projects in all six regions during each cycle. It also requires that OWEB staff carefully track the future commitments made by the Board to ensure accurate calculations of available grant resources.

For this cycle, the staff recommend a staged award approach for two Restoration applications in the Central Oregon Region (Region 4). The total amount of all Restoration applications recommended for funding by the Region 4 RRT is \$2,318,907. Staff agree that all of the recommended applications are important to fund. One of the applications, 211-4008, Tumalo Feed Canal Piping Phase 2, continues a project OWEB has already invested in and when completed, will result in 20 cubic feet per second (cfs) of conserved water instream in Tumalo Creek and Crescent Creek in the Upper Deschutes Basin. A staged award is not feasible for the Tumalo Feed Canal Piping project. However, staff have worked with the applicants for 211-4002, MFID Evans Creek Fish Passage, and 211-4010, Horse Heaven Creek Watershed Restoration, to develop staged funding recommendations. These applications are recommended for funding with the condition that only part of the funding is awarded at this meeting, with the remaining project funds being awarded at a future Board meeting.

## **VII. Staff Capital and Non-Capital Funding Recommendations**

Staff recommendations for Board actions are identified by region for the applications indicated in each of the following five regional reports. “Do Fund” applications are indicated on the tables by shading.

**A. Capital Funding Recommendations**

The statewide funding total recommended by staff is shown below. Details are contained within each of the attached regional staff reports.

Restoration Applications, <i>Capital</i> Portion	\$7,720,432
<u>Acquisition Applications (Region 1)</u>	<u>\$ 420,000</u>
<b>TOTAL <i>Capital</i> Staff Recommendation</b>	<b>\$8,140,432</b>

**B. Non-Capital Funding Recommendations**

Technical Assistance Applications	\$ 450,093
<u>Restoration Applications, <i>Non-Capital</i> Portion</u>	<u>\$ 5,300</u>
<b>TOTAL <i>Non-Capital</i> Staff Recommendation</b>	<b>\$ 455,393</b>

Attachment

- A. Types of Applications Received and Amounts Requested by Application Type

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### Types of Applications Received for April 19, 2010

	Acquisition	Technical Assistance	Restoration	Totals
<b>Region 1</b>	5	8	10	23
<b>Region 2</b>	0	6	20	26
<b>Region 3</b>	3	9	21	33
<b>Region 4</b>	1	8	10	19
<b>Region 5</b>	1	4	26	31
<b>Region 6</b>	0	1	23	24
<b>Totals</b>	<b>10</b>	<b>36</b>	<b>110</b>	<b>156</b>

### Dollar Amounts by Application Type

	Acquisition	Technical Assistance	Restoration	Totals
<b>Region 1</b>	\$4,486,000	\$355,111	\$1,766,381	\$6,607,492
<b>Region 2</b>	0	\$205,638	\$2,560,331	\$2,765,969
<b>Region 3</b>	\$5,200,000	\$374,303	\$2,589,162	\$8,163,465
<b>Region 4</b>	\$171,252	\$302,334	\$2,706,099	\$3,179,685
<b>Region 5</b>	\$450,000	\$89,965	\$2,131,152	\$2,671,117
<b>Region 6</b>	0	\$11,495	\$2,073,320	\$2,084,815
<b>Totals</b>	<b>\$10,307,252</b>	<b>\$1,338,846</b>	<b>\$13,826,445</b>	<b>\$25,472,543</b>