



Oregon

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MEMORANDUM

TO: Oregon Watershed Enhancement Board

FROM: Tom Byler, Executive Director

SUBJECT: **Agenda Item E-1: 2011-2013 Biennium Spending Plan
January 18-19, 2012 OWEB Board Meeting**

I. Introduction

This staff report seeks Board approval of a proposed updated spending plan to guide OWEB grant investments for the remainder of the 2011-2013 biennium.

II. Background

At the September 2011 OWEB meeting, the Board discussed and approved an initial spending plan to guide the agency's grant investments for the 2011-2013 biennium. During that meeting Board members expressed an interest in a more comprehensive view and approach for the spending plan. This report offers an updated spending plan proposal that more fully describes agency program investments for the biennium.

This section describes the funding available for OWEB this biennium. It also explains a unique set of factors that influence the spending plan.

A. Available Funding

OWEB's overall budget consists of two basic parts. One part involves funds to support the day-to-day operations of the agency. The legislature appropriated a total of \$5,987,696 to support these functions from Lottery, federal and salmon license plate funds. The second part involves the funds available for the Board to distribute as grants or contracts during the biennium. These funds total \$67.9 million for the biennium and are comprised of Lottery, federal and salmon license plate funds. These are the funds available for the spending plan.

OWEB's funding sources each have specific, defined purposes. Lottery Funds may be used for a wide variety of purposes that further the goals of improving water quality and enhancing habitat for native fish and wildlife. Federal Pacific Coastal Salmon Recovery Funds (PCSRF) are used for a range of actions related to the recovery and restoration of salmon or steelhead populations. Lottery and PCSRF funds may be distributed through a competitive grant process or by direct allocation by the Board. A third and relatively small funding source is salmon license plate funds, which may be used to support a wide range of conservation-related grant types.

In November 2011, Congress approved funding for PCSRF for Federal Fiscal Year 2012 at a total of \$65 million. Along with other eligible state and tribal entities, OWEB will apply to the



National Marine Fisheries Service (NMFS) for a grant from this funding to supplement our 2011-2013 budget. OWEB has the authority to receive and expend \$5.7 million in federal funds without having to seek permission from the legislature this biennium. News of PCSRF grant decisions from NMFS will likely occur by mid to late spring in 2012. If OWEB receives 2012 PCSRF grant funding, those funds could be available for OWEB grants by the fall of 2012.

Because at this time it is not clear how much funding OWEB may receive, for purposes of the spending plan discussion in this report, we are not including the 2012 PCSRF funds. If PCSRF funding is received later in the biennium, the Board can decide the best use of those funds at that time.

B. Factors Influencing the Spending Plan

There are a number of factors that influence the Board's choices regarding the spending plan for this biennium. These factors include:

1. Bad Economy and Declining Revenues

Until last biennium, Measure 66 Lottery Fund revenues showed tremendous growth. The increasing revenues allowed OWEB to make significant grant investments across the state, supporting long-standing programs while at the same time investing in new initiatives.

Since 2008, the economic downturn has had a substantial impact on communities and businesses throughout the state and nation. Many of us have had family, friends or neighbors lose jobs or deal with financial difficulties. The budget for the State of Oregon is not immune from the bad economy. When the economy struggles, General and Lottery fund revenues can decline, impacting the delivery of state services. The economic downturn has impacted Lottery Fund revenues in 2009-2011 resulting in a revenue shortfall for OWEB that required administrative actions to rebalance the agency biennial budget during the 2009-2011 biennium. OWEB's 2009-2011 and 2011-2013 budgets contain about 25 percent less Lottery Funds compared with the 2007-2009 budget.

Declining General Fund and Lottery Fund dollars sometimes forces difficult choices between the support of state services. In a recent example that impacted OWEB, approximately \$13 million out of a \$15 million 2010 PCSRF grant from the NMFS was used to support other natural resources agency budgets this biennium. These funds would otherwise typically have supported OWEB grants.

The state economy continues to struggle, resulting in General Fund and Lottery Fund revenues performing below expected levels for the 2011-2013 budget. As a result, some state agencies are considering or in the midst of layoffs in response to the revenue shortfall. State revenue forecasts show General Fund revenues down \$277 million and Lottery Funds down \$28 million for the first six months of the biennium. Based on these forecasts, OWEB expects as much as \$1.9 million in Lottery Fund grant dollars, originally anticipated in the agency budget, will be unavailable this biennium. The proposed spending plan assumes these dollars are not available.

Federal funds may also be on the decline. While Oregon has fared well in competing for PCSRF funds over the last few years, budget challenges at the federal level suggest that future allocations of PCSRF, beyond 2012, are uncertain.

2. Measure 76 and Budget Decisions

Measure 76 (2010) retains the basic structure of its predecessor, Measure 66 (1998). For example, the overall 15 percent dedication of Lottery Funds remains split evenly between parks and conservation purposes. For the conservation funds, Measure 76 continues the apportionment between operating funds (35 percent) and grant funds (65 percent).

However, the purposes of the operating and grant funds were changed somewhat by the measure, and that has impacted legislative budget decisions and OWEB's spending plan. For example:

- a. Measure 76 eliminates the "capital" restriction on the use of the 65 percent grant funds. This means that those funds are no longer limited to restoration and acquisition purposes, and may now be used for all OWEB grant types.
- b. Measure 76 prohibits grant funds from being used for grants to state or federal agencies. This change resulted in the legislature redirecting Measure 76 operating funds and Pacific Coastal Salmon Recovery Fund dollars to support other agency programs that were previously supported with capital funds (e.g., the Fish Screen Program at the Oregon Department of Fish and Wildlife and Noxious Weed Control and Threatened and Endangered Plant Programs at the Oregon Department of Agriculture)
- c. Another budget-related outcome of Measure 76 was the legislature's decision to support watershed council and soil and water conservation district capacity with Measure 76 Lottery Funds grant funds (65 percent funds) rather than with operating funds (35 percent funds).

All of these changes have resulted in less funding being available for restoration and other types of OWEB grants.

III. Proposed Spending Plan

OWEB spending plan options for 2011-2013 are set out in Attachment A. The proposed spending plan is organized into five broad program areas: Regular Grants; Partnerships; Acquisitions; Local Capacity; and Miscellaneous. For the biennium, the Board has a total of \$67.9 million available for grant-related decisions. The Board has already awarded \$36 million of these funds at the June and September 2011 meetings. Previously awarded funds are depicted in the shaded areas of the spending plan document. Each program area has subcomponents listed either as previous awards or recommended reserves.

The proposed spending plan document offers two scenarios (Options A and B) for the Board to consider to guide the distribution of limited funding for the remainder of the biennium. Option A was developed with the goal of continuing support for all program areas, even if funding is significantly less than stakeholders have come to expect in recent years. This approach recognizes there is value in all of the different OWEB investments within the broad program areas. This

approach is also premised on the notion that the revenue shortfall is a short term problem, and that eliminating funding for programs is not a strategic response for the long term.

Option B emphasizes continued support for restoration grants. Funding for restoration grants has been the backbone of OWEB grant investments over the years. This option would bring OWEB's funding support for restoration grants closer to the level of the last two biennia. A consequence of this approach would be more dramatic reductions of funding for a number of other program areas.

The following sections describe the five program areas and highlight key points for the Board to consider concerning the impacts of the two spending plan options for each program area.

A. Regular Grants

This program area involves OWEB's six-month grant offerings. This includes grants for restoration, technical assistance, monitoring, watershed assessments, and outreach. The regular grant program pre-dates OWEB, and many consider it the foundation of the agency's grant investments. It offers a competitive process that emphasizes locally identified conservation needs and priorities, and is available to applicants across the state.

Over the years, the regular grant program has received the largest proportion of funding compared with other program areas. For context, during the 2007-2009 biennium, the regular grant program received 47.6 percent of the funds available to the Board, amounting to \$43.8 million out of a total \$92 million available. Of the \$43.8 million, OWEB awarded \$36.4 million to restoration grants, \$3.2 million to technical assistance grants, \$1.2 million to outreach grants, and \$400,000 to assessment grants. In the 2009-2011 biennium, the regular grant program received 58.2 percent of the available funding, consisting of \$37.5 million out of a total \$64.4 million available. Of the \$37.5 million, the Board awarded \$32.7 million to restoration grants, \$2.2 million to technical assistance grants, \$1.9 million to monitoring grants, and \$700,000 to outreach grants.

The proposed spending plan sets out two options for the regular grant program area.

1. Option A recommends regular grants receive 44.9 percent of total funding available (\$30.5 million of \$67.9 million). Most grant types would be funded under this approach, with the exception of watershed assessments. Staff recommend the Board consider funding for assessments in future biennia. This option would offer significantly less funding for regular grants than has been awarded in the past two biennia (\$43.8 million in 2007-2009; and \$37.5 in 2009-2011). Based on recent biennial funding levels for this program area, the funding proposed in this option would fall well below the expectations and needs of local partners. Under this scenario, the OWEB management team recommends the Board consider eliminating the final grant cycle of the biennium. This action would allow more funding to be available for the remaining two cycles. It also avoids the considerable time commitment applicants would need to go through to compete in three grant cycles with greatly diminished chances of receiving grant funding. More detail and a request for Board consideration of this approach in Agenda Item E-2.

2. Option B recommends regular grants receive 53 percent of available funding (\$35.9 million of \$67.9 million). This proposal adds \$5.425 million to restoration grants, which could justify retaining the last grant cycle of the biennium. Adding funding to restoration grants has significant consequences in other program areas, however. Under this option, funding would be reduced for technical assistance, monitoring, the Deschutes Special Investment Partnership (SIP), Willamette SIP, Whole Watershed Restoration Initiative, acquisitions, effectiveness monitoring, Oregon Plan/Governor's priorities, and ecosystem services; and funding would not be offered to initiate the Klamath SIP.

B. Partnership Investments

This program area includes a number of grant investment programs that are made outside of the regular, six-month grant process. Partnerships focus on specific ecological outcomes and involve identified partners and geographic areas of investment. Partnership investments promote accelerated restoration work on a large, landscape scale that is not possible under the regular grant program. These partnerships also create opportunities for OWEB to strategically align our funding with the goals and objectives of other public and private funders.

Our involvement in one partnership investment, the Conservation Reserve Enhancement Program, pre-dates the creation of OWEB as a state agency. More recent partnerships include the Whole Watershed Restoration Initiative, Deschutes SIP, and Willamette SIP. The potential initiation of the Klamath SIP is part of the spending plan discussion. All of these programs are intended to achieve certain ecological objectives and expected to take multiple biennia to achieve.

The percentage of funding for partnership investments has ranged widely for OWEB in the previous two biennia. In 2007-2009, partnerships received 17.5 percent of the total Board awards (\$16.138 million of \$92 million). In 2009-2011, partnerships received 6.5 percent of Board funding (\$4.165 million of \$64.4 million). The significant swing in funding percentages for this program area is in part due to the evolving nature of the program. In 2007-2009, \$6 million was awarded to the Willamette SIP. This funding supported that effort through the 2009-2011, so no new funds were requested for the Willamette SIP last biennium. In addition, there were some partnership efforts funded in 2007-2009 (Oregon 150 grants; Salmon Season State of Emergency Grants) that were intended for only that biennium.

1. Option A would provide funding for all existing partnerships to continue, although in some cases at levels below the needs and expectations of local partners. This approach would also include funding to initiate the Klamath SIP. The funding under this option would involve 13 percent of the total available for the biennium (\$8.8 million out of \$67.9 million).
2. Option B would significantly reduce funding for the Deschutes and Willamette SIPs and the Whole Watershed Restoration Initiative. This option would not provide funding to start up the Klamath SIP. The funding under this option would involve 7.9 percent of the total available for the biennium (\$5.4 million out of \$67.9 million).

C. Acquisitions

Under Measure 66, 65 percent of Lottery Funds for watershed purposes were limited to “capital” uses for on-the-ground restoration and land and water acquisition projects. Under this arrangement, most of OWEB’s funding was limited to these two purposes. During the Measure 66 era, OWEB never assigned a percentage of funding for acquisition grants. Instead, funding for acquisitions was bundled into the overall capital fund spending plan and ultimately determined by the number of successful applications in any given biennium, both through the regular grant program and SIPs. Over this period, OWEB averaged about 9-10 percent of its total awards on acquisitions. OWEB funded acquisitions at 8.3 percent and 10.1 percent of the total available funding for the past two biennia, respectively.

Under Measure 76, the 65 percent portion of Lottery Funds is no longer limited to restoration and acquisition purposes. These funds may now be used to cover a wider range of grants, including technical assistance, monitoring, assessments and outreach. This fact— combined with the reality of increasing stakeholder expectations and needs and reduced revenues for the biennium—strongly suggests the need for the spending plan to identify a specific amount of funding set aside for acquisitions.

There are two additional factors influencing the spending plan for acquisitions that involve the need to address critical issues facing the acquisitions program. First, there is currently a backlog of 16 acquisition applications that involve 30 individual transactions pending due diligence review. This is a substantial workload that staff are working hard to address with limited resources. A staff strategy to reduce the due diligence backlog is proposed for Board consideration in Agency Item K. The strategy involves reducing the current due diligence queue by asking the Board to deny funding to some of the pending applications based on administrative rule criteria. The strategy further proposes to not accept new acquisition applications until the backlog is sufficiently reduced. This approach will also allow OWEB to process the highest priority applications pending in the due diligence queue so that the Board can consider grant awards this biennium. Staff believe these measures will help to concentrate OWEB’s focus on eliminating the backlog and get the program back on track.

Second, staff believe the time is ripe to consider fundamental changes to the policies, priorities and processes for the acquisitions program. In recent years, the demand for acquisitions has exceeded OWEB’s staff capacity to process the acquisitions in a timely manner. In addition, a number of stakeholders have expressed interest in OWEB considering new approaches to acquisitions. OWEB identified a number of acquisition program issues raised through a work group process during the first half of 2011. We recommend the Board, staff and stakeholders revisit and expand that process to shape the future direction of the acquisitions program during the next year.

In light of spending plan constraints, the due diligence backlog, and desire to shape the future direction of the program, OWEB is not facing a “business-as-usual” situation for acquisitions. Therefore, staff recommend a focused and strategic approach to address these issues. This approach, as it pertains to the spending plan, involves reserving sufficient funds to support high priority applications in the due diligence queue and successful new applications submitted in October 2011. Under this proposal, OWEB would not accept new acquisitions applications

until it has significantly reduced the due diligence backlog. Staff recommend that the earliest date to accept new applications be no sooner than April 2013.

A more detailed description of the status of the acquisitions program, and goals and strategies for the biennium is contained in Agenda Item K.

1. Option A recommends acquisitions receive 12.7 percent of total available funds (\$8.65 million out of \$67.9 million). This amounts to an overall increase in funding percentage and amount for the program compared to the previous two biennia (8.3 percent or \$7.6 million in 2007-2009; and 10.1 percent or \$6.48 in 2009-2011). The funding set aside for acquisitions in this option is intended only to cover current applications pending in the due diligence queue and applications received in October 2011. Per the explanation above, no new acquisition applications would be accepted prior to April 2013.
2. Option B recommends the acquisitions program receive 11.4 percent of total available funds, at an amount of \$7.75 million. Like Option A, the funding from this scenario would only be used for pending applications in the due diligence queue and new applications received in October 2011. With \$900,000 less funding, Option B would allow the Board to fund fewer applications from this pool than Option A.

D. Local Capacity

The funding in this program area supports the organizational capacity of key local partners—watershed councils and soil and water conservation districts. The funding also funds the capacity of entities that support councils and districts, like the Network of Oregon Watershed Councils and the Oregon Association of Conservation Districts. Acting as critical liaisons with local landowners, and by frequently serving as the developer, applicant and implementer of projects, these local partners are integral to the overall success of OWEB's programs. In OWEB's early years, the overall statewide capacity funding for councils and districts hovered around \$4 million each. In 2007-2009, the Legislature increased funding for councils and districts to \$5 million each, and the Board awarded an additional \$1 million. The combined increase in funding resulted in councils and districts receiving a total statewide increase in funding of approximately 50 percent. This increased level of funding support was continued for the 2009-2011 and 2011-2013 biennia.

1. Option A recommends local capacity receive 18.1 percent of total available funds (\$12.3 million out of \$67.9 million). These funds were awarded by the Board at its June and September 2011 meetings. In comparison, the local capacity program area received 13.3 percent of funding in 2007-2009 (\$12.2 million) and 19.1 percent of funding in 2009-2011 (\$12.3 million). Of the \$12.3 million, \$100,000 was awarded to the Network of Oregon Watershed Councils and another \$100,000 was awarded to support the Oregon Association of Conservation Districts. The remaining \$100,000 was awarded to support training, workshops, and other related needs of local watershed groups. Because funds have already been awarded for these purposes, no reductions are proposed for this program area.
2. Option B proposes no changes to Option A.

E. Miscellaneous

This program area involves a number of important programs that support OWEB's mission. Included in this area are effectiveness monitoring, Oregon Plan/Governor priorities, ecosystem services, funding to support the business practices review associated with Measure 76 transition work plan goals, Oregon State Weed Board grants, research grants, and the Small Grant Program. OWEB investment in this program area has varied over time. Some investments have remained consistent (Small Grants), while others have not received funding every biennium (research grants and ecosystem services). In the past two biennia, the level of overall OWEB investment in this program area ranged from 13.4 percent of total available funds (\$12.323 million of \$92 million) to 6.1 percent of total funds (\$3.9 million of \$64.4 million). In the past, Weed Grants were not a part of OWEB's grant funds. This program is now supported with OWEB funds, resulting in a \$2.5 million increase in this program area.

1. Option A proposes 11.3 percent of total available funds to support this program area (\$7.65 million of \$67.9 million). This would provide full support to Small Grants and weed grants (both awarded funding in 2011), and maintain adequate funding to support effectiveness monitoring and ecosystems services. This approach would also include \$1.5 million to assist with emerging priorities from the Governor's Office, including forest health issues and renewed efforts under the Oregon Plan for Salmon and Watersheds. This option does not propose funding for research this biennium, but staff recommend consideration of research funding in future biennia.
2. Option B proposes 9.6 percent of total funding support (\$6.525 million). Under this option, funding would essentially be reduced by 50 percent for the Oregon Plan/Governor's priorities and ecosystem services line items. Effectiveness monitoring would be reduced by 40 percent. These reductions would limit OWEB's ability to lead and participate in these activities during the biennium.

IV. Recommendation

All OWEB programs contribute to important local and state efforts to improve watershed health. OWEB greatly appreciates the excellent work of local partners throughout the state who develop and implement actions that support our programs. The reduced funding in OWEB's 2011-2013 budget forces difficult choices for the agency spending plan. OWEB recognizes that with limited funding, spending plan choices can have significant impacts on our local partners. There is no scenario that allows OWEB to fund all programs sufficiently, nor can all needs and expectations be met.

By approving the spending plan, the Board is not awarding funds. Instead, the spending plan acts as the blueprint for OWEB grant investments for the remainder of the biennium. The approved spending plan will signal the amount of funding available in different program areas and will help the Board, staff, and stakeholders plan and act accordingly.

Of the two spending plan options set forth in this report, the OWEB management team recommends the Board approve Option A. This option provides the best opportunity for all programs to continue, even though some will operate with significantly less funding than expected.

Attachment

A. Proposed OWEB 2011-2013 Spending Plan

**Proposed OWEB 2011-13 Spending Plan Options
December 16, 2011**

Attachment A

	Option A	Option B
Regular Grants:		
Restoration Sept 2011	8.100	8.100
Restoration after Sept 2011 (inc staged awards)	17.100	22.925
Technical Assistance (TA) Sept 2011	0.700	0.700
TA after Sept 2011	1.000	0.800
Monitoring	1.700	1.500
Outreach	0.600	0.600
Assessments	0.000	0.000
June 2011 Grant Awards (for holdover of Mar 2011 awards)	1.300	1.300
TOTAL	30.500	35.925
% of assumed Total Budget	44.9%	52.9%
Partnerships:		
Deschutes SIP-awarded Sept 2011 (less .400m for SIP Acq below)	2.100	2.100
Deschutes SIP-reserve	1.500	0.000
Willamette SIP-awarded Sept 2011	1.750	1.750
Willamette SIP-reserve	1.250	0.000
Klamath SIP	0.400	0.000
Whole Watershed Restoration Initiative (WWRI)-awarded Sept 2011	0.250	0.250
WWRI	0.250	0.000
Conservation Reserve Enhancement Program (CREP) TA	0.800	0.800
CREP	0.500	0.500
TOTAL	8.800	5.400
% of assumed Total Budget	13.0%	8.0%
Acquisitions:		
Sept 2011	1.750	1.750
After Sept 2011	4.900	4.000
Deschutes & Willamette SIP (.400 from above & 1.6 from 2008/2009 awards)	2.000	2.000
TOTAL	8.650	7.750
% of assumed Total Budget	12.7%	11.4%
Local Capacity:		
June 2011 Capacity grants	10.000	10.000
Sept 2011 Capacity grants	2.300	2.300
TOTAL	12.300	12.300
% of assumed Total Budget	18.1%	18.1%
Miscellaneous:		
Effectiveness Monitoring	0.500	0.300
Oregon Plan/Governor Priorities	1.500	0.700
Ecosystem Services	0.250	0.125
Business Practices (inc in \$54.4m)	0.100	0.100
Weed Grants	2.500	2.500
Small Grants	2.800	2.800
Research	0.000	0.000
TOTAL	7.650	6.525
% of assumed Total Budget	11.3%	9.6%
TOTAL	67.900	67.900