

August 28, 2006

MEMORANDUM

TO: Oregon Watershed Enhancement Board

FROM: Melissa Leoni, Senior Policy Coordinator

**SUBJECT: Agenda Item J: Local Innovation Fund
September 19-20, 2006 OWEB Board Meeting**

I. Introduction

In this report, staff describe the Phase II Local Innovation Fund (LIF) request for proposals, the applications received by the June 15, 2006, deadline, the evaluation process applied to these applications, and lessons learned through this phase of the pilot program to link restoration funding with economic and community benefits. Staff also seek Board approval for funding of three Phase II LIF grant applications.

II. Background

In September 2005, the OWEB Board authorized staff to create a special grant offering that more expressly linked watershed restoration to economic and community benefits called the Local Innovation Fund. The purpose of the LIF is to encourage innovative projects that provide ongoing economic and community incentives for the restoration and protection of fish and wildlife habitat, water quality, and watersheds. The LIF differs from OWEB's regular grant program, which provides funding for all phases of watershed restoration and protection projects, by explicitly seeking projects that also directly connect to and benefit the local economy and community.

In October 2005, staff issued a Call for Innovation requesting proposals to the newly created Local Innovation Fund. This request was for the first in a two-phase pilot program, and it offered funding for the development of projects that benefit the local watershed, economy, and community. In January 2006, the OWEB Board awarded eight Phase I LIF grants totaling \$100,000 for projects in three categories: 1) Creation of Market Incentives for Ongoing Watershed Restoration and Protection; 2) Creation of a Sustainable Family Wage Restoration Workforce; and 3) Providing a Model for More Sustainable Sand and Gravel Mining.

III. Phase II Local Innovation Fund

On May 1, 2006, staff issued a Request for Proposals for Phase II of the two phase pilot program to provide funding for on-the-ground watershed restoration activities that benefit and provide connections to the local economy and community. The announcement described the intent as seeking projects that make explicit connections between environmental restoration activities and pressing social and economic needs, effectively "leveraging" a conservation investment for positive outcomes in the community and economic spheres. Grant applications were due on June 15, 2006.

Fifteen applications were received by the deadline. An initial staff review identified two applications that were ineligible because they did not propose on-the-ground watershed restoration activities. The remaining twelve applications (Attachment A) were copied and mailed to the appropriate OWEB Regional Review Team for evaluation of the application's watershed benefits, and to a single Statewide Review Team for evaluation of the economic and community benefits. Attachment B shows the regional and statewide review team recommendations and rankings.

A. Regional Review Teams Evaluation and Recommendation

OWEB's Regional Review Teams (RRT) met between July 6 and July 19, 2006, to review the April 2006 restoration and acquisition applications (see Agenda Item E), and to review only the Phase II LIF applications from their respective region. Applications were reviewed for their technical merit and watershed benefits, and each was given a fund/no fund recommendation by its RRT. When more than one application was recommended for funding in a region, the RRT prioritized the recommended applications. The RRTs recommended funding for six of the twelve LIF applications.

B. Statewide Review Team Evaluation and Recommendation

The Statewide Review Team (SRT) met on August 2, 2006, to evaluate the overall quality of the proposals and the economic and community benefits of all twelve applications. The SRT was formed from the Phase I Review Panel and included the following members:

- Bill Blosser, consultant and former Oregon Sustainability Board member;
- Julia Doermann, consultant and former Natural Resources Advisor to Governor Kitzhaber;
- Mike Hibbard, Director, Institute for Policy Research and Innovation, University of Oregon;
- Tom Nelson, Oregon Economic and Community Development Department; and
- Krystyna Wolniakowski, Director, NW Regional Office, National Fish and Wildlife Foundation.

The SRT was provided with copies of the RRT evaluations and was asked to evaluate and rank each application on whether the project:

- represents an economic solution or incentives for market change;
- addresses social conflict, improves diverse stakeholder collaboration, or strengthens local social capacity to achieve watershed restoration outcomes;
- explicitly connects watershed protection and restoration activities and pressing social or economic needs, or helps to reduce perceived conflicts between the environment, economy, and community; and/or
- proposes on-the-ground watershed restoration activities that create long-term local economic and community benefits.

The SRT recommended seven applications for funding. The SRT's recommendations matched the RRT recommendations except for the application from Region 1. For project 207-139, Pacific Shrimp Company Water Conservation Project, the SRT concluded economic and community benefits, but agreed with the RRT's conclusions about a lack of clear watershed benefits.

C. Staff and Board Subcommittee Recommendation

OWEB staff worked with the Board’s Local Innovation Fund Subcommittee, Dan Heagerty and Dan Carver, to review the RRT and SRT recommendations and to develop a Board funding recommendation. Generally, the Subcommittee agreed that few of the Phase II proposals really address and benefit all three criteria, environment, economy and community, and that many of the proposed projects, as noted by the RRTs and SRT, could be submitted and funded as regular restoration grants.

The Subcommittee felt that three of the projects recommended by both teams could be developed or enhanced in ways that more comprehensively achieve the Phase II Local Innovation Fund goals. The Subcommittee and staff have identified the top three SRT recommended projects as having that potential if the conditions and challenges identified below are addressed.

Project # and Name	Conditions
207-139 South Coast Cranberries	<ol style="list-style-type: none">1. Implement pre and post project water quality monitoring on the streams associated with project sites in conjunction with local Oregon Department of Environmental Quality (DEQ) staff. OWEB staff are working with DEQ and the applicants to develop monitoring plans and estimated costs.2. Increase grower match contributions for the bog renovation and reservoir stabilization activities.3. Document local economic benefits from certification or marketing efforts.
207-148 Mosier Community Groundwater Management	<ol style="list-style-type: none">1. Involve the City of Mosier in the project, especially as a committed partner in the community discussions.2. Document yield changes from implementation of irrigation efficiency and mulch practices.3. Report economic and community benefits (i.e. agricultural yields, water conservation results, community results).
207-142 Salmon-safe Applegate Restoration Initiative	<ol style="list-style-type: none">1. Collect data about economic conditions before and after implementation (i.e., number of farms and employees, gross sales per business, and payroll).2. Report economic and community benefits of training and certification.

The Board Subcommittee also recommends that OWEB develop partnerships with the Oregon Economic and Community Development Department and other relevant agencies to assist in the enrichment of these projects to meet the three LIF goals. They also recommend that the Board awards be flexible to allow staff to complete discussions with the applicants, on the conditions described above, that may occur following the September Board meeting.

IV. Funding Considerations

The Agenda Item E Overview describes the capital funding remaining for Board allocation in the 2005-2007 biennium. The LIF projects recommended by the Board Subcommittee and staff will require \$218,200 of capital funds and at least \$8,200 of non-capital funds. (Attachment C)

V. Local Innovation Fund Lessons Learned and Next Steps

The Local Innovation Fund has been a pilot program to assist in implementing OWEB's 2004 Sustainability Plan. Staff intend to collect feedback this fall from LIF grant applicants in addition to the feedback provided by the RRTs and SRT. That feedback will be reviewed with the Subcommittee and provided to the Board at a meeting next year with recommendations on how to proceed with any future LIF solicitations.

The comments and questions from the RRTs and SRT during Phase II include:

- Whether the on-the-ground activities should be innovative or proven restoration or enhancement techniques. Or whether the focus should be on proven techniques that haven't been implemented before.
- Many applications appear to be demonstration projects, but were proposing on-the-ground implementation of things that have been demonstrated before. How much demonstration of certain techniques is really needed or were projects portrayed in those terms to appear more innovative?
- Should the on-the-ground activities be trying to answer untested questions?
- Many applicants struggled with addressing the economic or community benefits criteria. Future training and/or guidance materials should be developed to help restoration specialists meet these new criteria.
- OWEB needs to be clearer about its criteria and project expectations so that the evaluation process can be more thoughtful.
- OWEB could look for other economic development and or community improvement groups such as the Governor's Economic Revitalization Team to partner with to make the offering more robust and connect with other groups.

VI. Recommendation

Staff recommend the Board approve funding for the three Phase II Local Innovation Fund projects shown in Attachment C with the conditions described in Section III(C) above. Staff also recommend that the Board delegate authority to the Director to approve final grant amounts and conditions, after consultation with the Board Subcommittee, when staff and applicant discussions are complete.

Attachments

- A. June 15, 2006 Phase II Local Innovation Fund Grant Applications
- B. Phase II LIF Regional and Statewide Review Team Recommendations
- C. Phase II LIF Staff Recommendation