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## **MEMORANDUM**

**TO:** Council Members

**FROM:** Patty O'Toole, Doug Marker, Mark Fritsch, and John Ogan

**SUBJECT:** Confirming Council FY 04 and 05 Project Budget Recommendations and Start-of-Year Budget Approach

### **Description of the Topic**

The staff will present the Fish and Wildlife Committee and the Council the project funding recommendations for Fiscal Years 2004 and 2005, as well recommended Fiscal year 2004 placeholder categories and levels. The staff will detail the additional steps that will be taken over the next two months to finalize the Fiscal Year 2004 start-of-year budget and to identify a provisional Fiscal Year 2005 budget.

### **Actions Requested of the Committee and Council**

The staff asks that the Committee recommend for Council confirmation, and that the Council confirm, the project funding recommendations presented by staff for contract action by Bonneville. The staff asks that the Committee recommend for Council approval, and the Council approve, the additional process steps proposed by staff for finalizing a start-of-year Fiscal Year 2004 budget and a provisional start-of-year 2005 program budget.

### **Background**

For each Fiscal Year, the Council, Bonneville, and CBFWA work together to develop a start-of-year (SOY) budget and workplan for the fish and wildlife program. While this has historically been a rather orderly process, developing a start-of-year budget in Fiscal Year 2003 was extremely difficult, and never completed satisfactorily, due primarily to Bonneville's financial difficulties and a change in the accounting approach required by Bonneville. Over the past six months, all parties have worked diligently to establish accounting protocols and a budgeting approach to restore stability and certainty to budgeting for the fish and wildlife program. Those

protocols and processes are being implemented to establish a SOY 2004 budget, and to set a provisional SOY budget for Fiscal Year 2005. The SOY budgets for Fiscal Years 2004 and 2005 are fixed in a series of steps, which are depicted in the following flow-chart and described in detail in this memorandum.

## Confirmation process steps for FY 2004 Annual Work Plan

Council Meeting 9/9-9/10	Begin Fiscal Year 10/1 - 10/15	Quarterly Status Review 11/15	CBFWA review/ Council revisions 11/15 - 1/20/04
<p><b>Council actions:</b></p> <ul style="list-style-type: none"> <li>• Confirm FY 2004 recommendations for contract renewals</li> <li>• Include specific rescheduling capability</li> <li>• Establish updated 2005 estimates</li> <li>• Update capital estimates</li> </ul>	<p><b>NPCC/BPA/CBFWA staff review:</b></p> <ul style="list-style-type: none"> <li>• Report actual project 2003 spending</li> <li>• Confirm assumptions for rescheduled work</li> <li>• Identify: Unspent 2003 project funds</li> </ul> <p style="margin-left: 20px;">Additional rescheduling needs</p> <p style="margin-left: 20px;">Candidates for accelerated/expanded project scope</p>	<p><b>Staff and project sponsors:</b></p> <ul style="list-style-type: none"> <li>• Agree to available funds for reallocation</li> <li>• Provide updated project status to support reallocation review</li> <li>• Develop contingency fund options</li> <li>• Identify remaining budget management issues</li> </ul>	<p><b>Council action:</b></p> <ul style="list-style-type: none"> <li>• Review CBFWA recommendations and sponsor requests</li> <li>• Approve additional rescheduling as budget permits</li> <li>• Recommended changes/acceleration of project scopes</li> </ul> <p><b>Product:</b></p> <ul style="list-style-type: none"> <li>• Revised 2004 annual work plan</li> </ul>

### Step 1 - Begin with the project budgets recommended by the Council in the Provincial Reviews

Each of the provincial reviews completed by the Council applied to three fiscal years. Therefore, the Council, CBFWA, and ISRP have already reviewed the projects proposed for Fiscal Year 2004, and the Council has already provided Bonneville funding recommendations for Fiscal Year 2004 projects in nine of the eleven provinces and for the mainstem/systemwide group. The proposed SOY budgets and work are tailored to implement those prior Council provincial review recommendations.

The Council's provincial review recommendations in two provinces, the Columbia Gorge and Inter-Mountain, expire at the end of Fiscal Year 2003. Therefore, Council confirmation of the SOY budget for Fiscal Year 2004 and the provisional Fiscal Year 2005 SOY budget will also constitute new interim funding recommendations by the Council for projects and work in those two provinces. This matter is discussed in more detail in "Step 3" below.

## **Step 2 - Update or "true-up" the project budgets established in the prior provincial reviews**

Over the last three months the Council staff, with the participation of Bonneville and CBFWA staff, conducted a series of meetings in the provinces to confirm with project sponsors that that workplans and budgets that were established in earlier provincial reviews remain valid and accurate. Because Fiscal Year 2004 project budgets and workplans had been developed in prior years, and because of significant implementation difficulties experienced in Fiscal Year 2003, it was deemed necessary to "true-up" or confirm the Fiscal Year 2004 project budgets and workplans with direct input from project sponsors. The Council, Bonneville and CBFWA participants met with project sponsors and went through each project in each province to confirm the validity of the Council's Fiscal Year 2004 recommendation.

It is important to understand what these "true-up" meetings *were not* used for -- the staff did not ask for reprioritization or budget reduction in these meetings. Rather, the premise that guided these meetings was that the Council had *already* recommended these projects and project budgets, and that those Council recommendations for Fiscal Year 2004 remain valid. At the time of the meetings, the issue of whether or not those project recommendations could be accommodated by Bonneville was premature, as the discussions about budget management and accounting protocols was still under discussion. Further, all of the "true-up" province meetings had to be completed before the programmatic budget could be known.

The province "true-up" meetings did reveal that the Council's original provincial review funding recommendations for Fiscal Year 2004 might need to be adjusted in some cases. There are four general categories of adjustments that that sponsors proposed:

1. *Projects will not be conducted or will require less funding than as originally conceived by sponsors and recommended by the Council.* This category includes projects that the sponsor no longer intends to implement in Fiscal Year 2004, and projects that the sponsor intends to implement with the same scope as originally conceived, but at a lower cost.
2. *Projects that were unable to implement all approved work in FY 2003, and would complete approved unimplemented FY 2003 work in FY 2004 while also implementing all approved FY2004 work -- "Candidates for "rescheduling" (option 1 type).* This category includes projects that were designed as multi-year projects, but for reasons beyond the sponsors' control, were not implemented as approved in FY 2003. The sponsors would seek to complete or "catch-up" on approved FY 2003 work while fully implementing the work approved for FY 2004. The sponsors seek rescheduling of uncompleted FY 2003 work to FY 2004, and augmentation of their FY 2004 budget with unspent FY 2003 funds. Therese Lamb's presentation to the Fish and Wildlife Committee on August 26<sup>th</sup>, identified this as a form of "rescheduling" (See attachment A, Option 1).

3. *Projects that were approved to begin implementation in FY 2003, but did not, and would shift FY 2003 work to FY 2004 (and move FY 2004 work to FY 2005, etc.) -- “Candidates for rescheduling” (option 2 type).* This category includes projects that were designed as multi-year projects, but for reasons beyond the sponsors’ control, did not begin implementation. The sponsors seek rescheduling FY 2003 approved work to FY 2004, and shifting out-years accordingly. Therese Lamb’s presentation to the Fish and Wildlife Committee on August 26<sup>th</sup>, identified this as a form of “rescheduling” (See attachment A, Option 2).

4. *Projects that seek additional funds to modify or expand the scope of approved work, or additional funds for cost of living or increased administrative costs.* This category includes projects where sponsors have identified additional or different work than that approved previously by the Council, and projects where the sponsors seek to respond to increased cost of living or administrative costs.

The final piece of work completed by the staffs in the province true-up meetings was to clearly identify the projects that should be characterized as *expense* projects, and those that should be *capital* projects. The Council is on notice that Bonneville intends to be considerably more definite in distinguishing how it may fund capital projects. This was not the case in the early provincial reviews, where the Council planned on the basis of an aggregate budget of \$186 million/year (\$150 million expense; \$36 million capital, as per the Bonneville Administrator’s 2001 decision).

### **Step 3 - Establish a Fiscal Year 2004 budget for the Columbia Gorge and Inter-Mountain provinces.**

The Columbia Gorge and Inter-Mountain provinces were the first two completed in the provincial review process, and the Council’s project funding recommendations covered Fiscal Years 2001 through 2003. In order to have a complete Fiscal Year 2004 SOY budget and workplan, projects and budgets need to be set for these provinces. The Council staff used the province “true-up” meetings to confirm with sponsors what body of work in those provinces would need to continue in Fiscal Years 2004 and 2005. The Council staff took this approach because we do not recommend starting another round of provincial reviews (new solicitations, new ISRP review, etc) until subbasin plans are complete and guiding the next full project selection process. The staff worked with sponsors to identify budgets for operations and maintenance and monitoring and evaluation of ongoing projects. The staff is not recommending that projects that initiated in the provincial review that were primarily new investigations or evaluations automatically be recommended for continuing funding. At this time, however, the staff cannot determine with certainty that the three-year scope of work for those new projects has been completed. Therefore, the staff proposes that Bonneville verify what work was completed for these projects in Fiscal Year 2003, and if a full year of additional funding is sought by the sponsors for Fiscal Year 2004, that this be brought to the Council for its consideration.

### **Step 4 - Identify placeholder categories and funding levels**

After working through all of the individual projects and funding requirements outlined above, the next step in identifying fish and wildlife program costs in Fiscal Year 2004 is to identify placeholder categories and funding levels. **Please note** -- should the Committee and Council confirm the staff’s proposal for establishing a SOY Fiscal Year 2004 budget, it is approving

these placeholder categories and levels. If there is any placeholder category or level that the Committee or Council is not presently satisfied with, its approval should be specifically conditioned.

The staff proposes the following placeholder categories and funding levels for Fiscal Year 2004:

<b>Placeholder Designation</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
ISRP/ISAB	\$900,000	\$1,050,278	\$1,050,278
Subbasin Planning	\$4,300,000	\$10,700,000	\$0
Water Marketing		\$4,000,000	\$5,000,000
APRE	\$1,300,000	\$100,000	
RME Placeholder	\$4,000,000	\$0	\$0
BPA Program Support	\$12,000,000	\$11,500,000	\$11,500,000
Data Management	\$250,000	\$250,000	\$250,000
<b>Total</b>	<b>\$22,750,000</b>	<b>\$27,600,278</b>	<b>\$17,800,278</b>

Shaded box = Need to confirm

The placeholder total is rather large in Fiscal Year 2004, and certainly larger than was planned for as the Council made its provincial review funding recommendations over the last few years. The two placeholders that were not accounted for adequately during the provincial reviews are the water marketing program and Bonneville administrative costs. The FCRPS Biological Opinion directs Bonneville to commit between \$5 and \$10 million dollars to the implementation of RPA 151. The National Fish and Wildlife Foundation, which is administering the water marketing program, and Bonneville propose \$4 million this year, and explain that they do not anticipate a Biological Opinion compliance problem because they have identified cost-sharing that will take the water marketing program total within the range contemplated by the Biological Opinion. With regard to Bonneville administrative costs, the \$11.5 million proposed is a reduction from Fiscal Year 2003, but still about \$2.5 million more than was anticipated when most of the provincial review budget work was done.

At the end of this fourth step, all of the fish and wildlife program funding requirements proposed within a SOY budget for Fiscal Year 2004 are identified. The following Draft Summary FY 2004 Funding Needs table captures the fish and wildlife project funding proposals as well as the total amount proposed for placeholders. The summary table also breaks out expense and capital projects (Tables breaking down this summary into individual Fiscal Year 2004 and 2005 project funding levels within each province are attached in an Excel Workbook). The first column on the table -- "2004 Council Recommended" includes the budget totals by province that were recommended by the Council in the provincial review decisions. The next column to the right -- "Sponsor Revised" reflects any modifications that were proposed by sponsors as they worked with Council and Bonneville staff in the province "true-up" meetings discussed above. This column would capture expected savings, proposed rescheduling (both option 1 and option 2 type), and proposed increases for proposed scope of work changes or increased administrative costs. The third column -- "09/07/03 Council Staff Recommended" removes increases

associated with changed scope of work or administrative cost increases from the “Sponsor Revised” column.

**Draft Summary FY 2004 Funding Needs**

September 9, 2003

**Expense (draft)**

Province	2004 Council Recommended	2004 Sponsor Revised	090703 staff recommended 2004	2005 Council Recommended	2005 Sponsor Revised	090703 staff recommended 2005
Blue Mountain	\$8,666,832	\$6,829,000	\$8,735,884	\$0	\$13,041,000	\$8,398,677
Columbia Gorge*	\$0	\$5,798,498	\$5,322,904	\$0	\$6,088,482	\$5,322,304
Columbia Plateau	28,296,660	\$29,864,216	\$28,025,683	\$0	\$29,345,997	\$25,891,844
Columbia Cascade	\$1,172,707	\$899,377	\$889,377	\$797,402	\$1,192,541	\$1,182,541
Lower Columbia/Estuary	\$9,514,255	\$9,027,251	\$8,542,123	\$8,538,849	\$9,560,639	\$9,560,639
Intermountain*	\$3,657,913	\$10,499,816	\$10,779,706	\$0	\$10,978,835	\$9,275,132
Middle Snake	\$2,606,071	\$2,571,623	\$2,106,383	\$2,366,681	\$2,596,725	\$2,113,725
Upper Snake	\$1,000,100	\$1,235,100	\$1,117,100	\$1,028,664	\$1,028,664	\$1,028,664
Mountain Snake	\$21,697,203	\$22,710,177	\$21,287,575	\$0	\$20,314,452	\$20,274,397
Mountain Columbia	\$8,205,545	\$8,692,653	\$8,459,145	\$0	\$8,695,155	\$8,421,579
Mainstem/Systemwide	\$31,000,000	\$31,000,000	\$31,000,000	\$31,000,000	\$31,000,000	\$31,000,000
<b>Total</b>	<b>\$115,817,286</b>	<b>\$129,127,711</b>	<b>\$126,265,880</b>	<b>\$43,731,596</b>	<b>\$133,842,490</b>	<b>\$122,469,502</b>

Preliminary 2004 placeholders:                   \$27,600,278   \$27,600,278                   \$27,600,278   \$17,800,278   \$17,800,278                   \$17,800,278

Preliminary Total:   \$143,417,564   \$156,727,989                   \$153,866,158   \$61,531,874   \$151,642,768                   \$140,269,780

\* No recommendations exist for the Col Gorge and the Intermountain for 04 (exception is those projects moved to the Intermountain from the Mount

**Capital (draft)**

Province	2004 Council Recommended	2004 Sponsor Revised	090703 staff estimate 2004	2005 Council Recommended	2005 Sponsor Revised	090703 staff estimate 2005
Blue Mountain	\$763,677	\$6,829,000	\$4,619,000	\$0	\$13,041,000	12804000
Columbia Gorge*	\$0	\$1,194,350	\$1,194,350	\$0	\$4,784,650	7299900
Columbia Plateau	\$1,247,478	\$2,425,000	\$2,396,800	\$0	\$2,650,000	750000
Columbia Cascade	\$3,194,290	\$3,549,429	\$3,104,290	\$3,142,412	\$8,723,636	3282412
Lower Columbia/Estuary	\$0	\$0	\$1,150,360	\$0	\$9,560,639	350000
Intermountain*	\$9,425,999	\$21,316,809	\$20,178,705	\$0	\$22,110,000	14756516
Middle Snake	\$0	\$0	\$0	\$0	\$0	0
Upper Snake	\$0	\$0	\$3,700,000	\$0	\$0	0
Mountain Snake	\$2,425,000	\$1,892,500	\$1,892,500	\$0	\$2,533,500	2533500
Mountain Columbia	\$5,038,826	\$14,916,482	\$14,916,482	\$0	\$5,693,519	1604000
Mainstem/Systemwide	\$4,948,206	\$4,948,206	\$4,948,206	\$6,032,500	\$6,032,500	\$6,032,500
<b>Total</b>	<b>\$22,095,270</b>	<b>\$57,071,776</b>	<b>\$58,100,693</b>	<b>\$9,174,912</b>	<b>\$75,129,444</b>	<b>\$49,412,828</b>

\* No recommendations exist for the Col Gorge and the Intermountain for 04 (exception is those projects moved to the Intermountain from the Mount

**Step 5 - Identify the funding available for Fiscal Year 2004**

Expense funding: The funding available for Fiscal Year 2004 expense projects (and placeholders) cannot be conclusively fixed until Bonneville closes its Fiscal Year 2003 books. Bonneville has committed to “reschedule” uncompleted Fiscal Year 2003 approved work to Fiscal Year 2004, and also to make de-committed or saved funds “available for contract” in Fiscal Year 2004. The amount available for rescheduling and the uncommitted funds available for contract coming from Fiscal Year 2003 will be added to the base \$139 million Fiscal Year

2004 expense funding. These additional sums that will augment the base \$139 million cannot be totaled until Bonneville closes its Fiscal Year 2003 books.

As of September 2, 2003 Bonneville reports that year-to-date expense spending is approximately \$95.5 million compared to the \$139 million available. Bonneville is requiring project sponsors to submit their final Fiscal Year 2003 bills by September 15<sup>th</sup>, and expects to be able to report full end-of-fiscal year spending by October 1<sup>st</sup>. This latest spending report is consistent with the staffs' previous predictions that Fiscal Year 2003 spending would be comfortably under Bonneville's \$139 million/year spending target. The staff continues to have a high degree of confidence that year-end spending will be substantially under the \$139 million target.<sup>1</sup>

Borrowing Authority/Capital funding: The Administrator's 2001 decision letter provided that an annual average of \$36 million/year throughout the current rate period would be made available from Bonneville's borrowing authority for fish and wildlife project funding. The fish and wildlife program spending has been dramatically below this level in all years of this rate period. As of September 2, 2003, capital spending for Fiscal Year 2003 is approximately \$8.3 million.

**Step 6 - Council confirm initial Fiscal Year 2004 project budgets for Bonneville contract action -- include known rescheduling from Fiscal Year 2003.**

The staff recommends that the Council confirm the projects and associated Fiscal Year 2004 budgets, and recommend that Bonneville begin contract action on that basis. The staff proposes that the Council recommend that Bonneville include the work and funding that has been identified to date that requires rescheduling from Fiscal Year 2003 to Fiscal Year 2004. The total amount of expense funding required is **\$126,265,880**. Adding in placeholders takes the Fiscal Year 2004 SOY budget total to **\$153,886,158**. This total can be accommodated so long as more than approximately \$15 million in Fiscal Year 2003 expense funding is made available for rescheduling and/or is saved or de-committed and "available for contracting."

The staff is not proposing that the Council confirm or recommend project funding increases that result for scope of work changes proposed by sponsors in the province true up meetings, and not confirm or recommend increased costs of living or administrative costs at this time. These requests will be evaluated in November in a quarterly review meeting (see Step 7 below).

With regard to capital projects, the amount proposed by staff for Council confirmation is approximately **\$58.2** million. While this is all work consistent with prior Council provincial review recommendations, it is unlikely that spending could reach that level in Fiscal Year 2004. This is so because \$18.3 million of that amount is for facilities, but only about \$8.1 million of that amount has been approved by the Council for construction (other work is somewhere in three-step review process or has not initiated that process). The remaining approximate \$41.8 million is for proposed land acquisitions, and history has shown that the complexity of those negotiations and transactions acts as a limit on the pace of this type of work. The "Capital Summary" sheet in the attached Excel workbook presents the capital projects, separates facilities from land, and groups them by Council approval status.

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<sup>1</sup> The September 2, 2003 spending report stated that the spending total increased by approximately \$1.5 million from the preceding week. If weekly spending were to increase 200% to \$4.5 million/week for the final four weeks of the fiscal year, the year-end total will be near \$113.5 million.

Should conditions exist that would allow land acquisition to proceed at an unprecedented pace and exhaust the capital funding made available for Fiscal Year 2004, the staff believes that the Council could call upon Bonneville to augment available funds because of the significant under funding of capital projects in Fiscal Year 2002 -- just under \$6 million of the \$36 million available was spent.

As stated above, with the exception of the project workplans and budgets in the Columbia Gorge and Inter-Mountain provinces, the Council has already reviewed and recommended Fiscal Year 2004 project workplans and budget levels in its provincial review decisions. This work and the associated budgets were recently verified with sponsors. The proposed Council action would continue its support for the project work and associated funding requirements it approved for Fiscal Years 2003 and 2004 in its earlier provincial review decisions.

The staff also proposes that the Council confirm the Fiscal Year 2005 projects and budget levels that it recommended in previous provincial review decisions. The staff believes that these figures will be verified and updated as Fiscal Year 2004 advances, but seeks to establish these Council approved and sponsor verified work plans and budgets as the base from which to work as we approach the SOY Fiscal Year 2005 tasks.

**Step 7 - Bonneville report end-of-year Fiscal Year 2003 spending on October 1 and confirm amounts available for rescheduling project-by-project by October 15.**

Bonneville has asked project sponsors to have Fiscal Year 2003 bills submitted by September 15<sup>th</sup>. Bonneville will report out end-of-fiscal year spending by October 1<sup>st</sup>. At this point, Bonneville should be in a position to review Fiscal Year 2003 spending on a project-by-project basis, and confirm amounts available for rescheduling and/or savings to make available for contracting by October 15<sup>th</sup>.

**Step 8 - November Quarterly Review to consider rescheduling for newly identified candidates and to augmenting project budgets for changed scopes of work, increased costs of living, and/or increased administrative costs.**

The first quarterly review meeting for Fiscal Year 2004 will be held in November. It is likely that there will be additional projects identified in the next few months that are candidates for having approved Fiscal Year 2003 work rescheduled into Fiscal Year 2004. Final rescheduling for Fiscal Year 2004 would be completed at this quarterly review. Additionally, after dealing with rescheduling candidates, the quarterly review would be used to address proposed project cost increases such as scope of work changes or administrative cost increases that were identified by project sponsors at the recent "true up" meetings. Those proposals would be defined, and brought to the Council for decision in December.