

JUDI DANIELSON
CHAIR
Idaho

Jim Kempton
Idaho

Gene Derfler
Oregon

Melinda S. Eden
Oregon

NORTHWEST POWER PLANNING COUNCIL

851 S.W. SIXTH AVENUE, SUITE 1100
PORTLAND, OREGON 97204-1348

TOM KARIER
VICE-CHAIR
Washington

Frank L. Cassidy Jr.
"Larry"
Washington

Ed Bartlett
Montana

John Hines
Montana

Fax:
503-820-2370

Phone:
503-222-5161
1-800-452-5161

Internet:
www.nwcouncil.org

June 4, 2003

MEMORANDUM

TO: Fish and Wildlife Committee Members

FROM: Patty O'Toole

SUBJECT: Discussion of Fiscal Year 2004 and 2005 budgets

Purpose: Provide a brief update process for developing provincial budgets for fiscal years 2004 and 2005.

General issues

The Council's FY 2004 and 2005 funding recommendations for all provinces need to be reviewed. For the Columbia Gorge and Inter-Mountain provinces, the past Council recommendations expire at the end of FY 2003. For all other provinces, the project specific spending caps recommended for fiscal year 2003 are different than the project planning budgets establish for those provinces for FY 2003 during the provincial review process. We need to follow up with those projects where the February 21, 2003 spending limit deviated from the Council funding recommendations to determine how the approved work may have been impacted. For example, objectives and tasks may have been deleted or deferred because of the spending limit. We need to understand the "ripple" effects of these for FY 2004 and 2005. We see this as an exercise to gather information, not to develop new province allocations or new budget targets or spending limits for projects.

We do not expect to develop budget recommendations for FY 2006 at this point, as we expect FY 2006 to be the transition year for subbasin planning recommendations. Subbasin plans will be submitted by the end of May, 2004, with program amendments occurring in FY 2005. We expect new budgets developed for the implementation work identified in subbasin plans to be prepared for the start of FY 2006.

The Council staff proposes the following steps to develop funding recommendations for all projects in the Program for FY 2004 and 2005. The steps are described below.

Step 1. Establish a “workbook” that details budget information from the 2003 revised budget (February 21, 2003) and the Council recommended budgets for 2004 and 2005 for individual projects (June, 2003).

Step 2. Meet with Bonneville to establish fiscal “rules” for FY 2004-2005. This would include resolving issues such as a target budget for the program, multi-year contracting, individual project carry-over, an emergency fund and any other issues (Week of June 16).

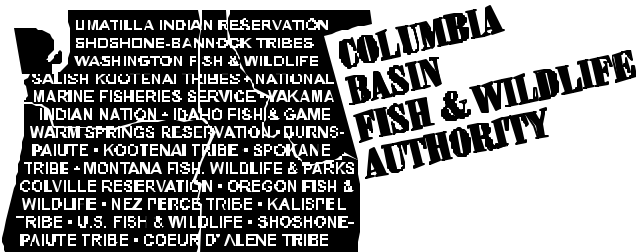
Step 3. Conduct provincial meetings with project sponsors, fish and wildlife managers, CBFWA, BPA and Council staff. Goals for these meetings are: (1) to determine and document changes to approved projects that resulted from budget limits imposed in FY 2003 specific to phase, objective and task; (2) Forecast FY 2004 spending for the program; (3) Develop province and project budgets for the provinces that do not have FY 2004/2005 Council recommendations.

Draft Schedule for Province Meetings:

- Columbia Gorge - June 24, 2003 (Portland) (9am to 5pm)
- Lower Columbia/Estuary - June 25, 2003 (Portland) (9am to 5pm)
- Columbia Plateau - June 26, 2003 (The Dalles)(1pm to 5pm) - June 27, 2003 (8am to 5pm)
- Intermountain - July 1, 2003 (Spokane) (9am to 5pm)
- Columbia Cascade - July 2, 2003 (Spokane) (9am to 5pm)
- Middle Snake and Upper Snake - July 17, 2003 (Boise) (9am to Noon)
- Mountain Snake - July 17, 2003 (Boise) (1 p m to 5pm) - July 18, 2003 (8am to 5pm)
- Mountain Columbia - July 22, 2003 (Kalispell) (10am to 1pm)
- Blue Mountain - July 23, 2003 (Lewiston/Clarkston) (10am to 5pm)

Step 4. Recommend funding levels for 2004 and 2005 at the August Council meeting (August).

Following are two documents submitted by CBFWA that also address the FY 2004 and 2005 budget development process and will addressed during our discussion. These are (1) a letter to the Council and Bonneville and (2) an interim process agreement proposal.



June 3, 2003

Judi Danielson, Chair
Northwest Power Planning Council
450 West State
Boise, ID 83720-0062

Therese Lamb, Acting VP - EFW
Bonneville Power Administration
905 NE 11th Ave.
Portland, OR 97208-3621

Dear Ms. Danielson and Ms. Lamb:

We wish to express our concern over the recent changes in Bonneville's project funding process that have severely impacted the implementation of the Northwest Power and Conservation Council's (Council) Fish and Wildlife Program. We believe that the resulting uncertainty over project funding caused confusion about project budgets, delayed the timely implementation of many projects, and caused unnecessary changes to scopes of work. We also believe that this confusion and delay has eroded the trust between Bonneville Power Administration (BPA) and project sponsors. We wish to propose the development of an interim funding process intended to rebuild trust and return predictability and order to implementation of the Fish and Wildlife Program (Program) through the end of the current Rate Case in 2006 or until agreement is reached on a long-term funding process.

Currently, uncertainty over both project-specific and programmatic funding is reducing the effectiveness of the Program implementation process. For example, the Start-of-Year (SOY) Budget for 2004 and planning budgets for 2005 and 2006 are still unclear. There is currently no process for evaluating and prioritizing project modifications and mid-season adjustments to projects from a regional perspective. Accounting reports that illustrate which projects and/or tasks are actually being implemented by BPA have not been provided so it is unclear how much funding is available for projects in 2004 through 2006. Policies for capitalization of land and water acquisitions and carry-over funding for incomplete objectives and tasks within projects have not been provided. Finally, the accrual management methodology for the Program has not been satisfactorily explained or implemented. These circumstances have created a climate of uncertainty and confusion that needs to be addressed through a comprehensive regional review of the Program implementation process.

Long-term Process

In the Council's February 21, 2003 letter to BPA, strategies were identified to ensure adequate funding is available for the Program, including potential development of a Memorandum of Agreement (MOA). The Members of CBFWA support the development of a long-term agreement to define the implementation processes for the Program. Such an agreement would include:

- BPA's obligations under the Northwest Power Act and the Endangered Species Act;
- the budget levels necessary to meet those obligations;
- assurances for implementation of subbasin and recovery plans;
- the planning process and accounting system necessary to maximize effectiveness and efficiency of Program implementation (budget management);
- resolution of the Program's wildlife crediting policy;
- land and water acquisition and capitalization policy; and
- monitoring and reporting requirements necessary to evaluate implementation of the Program.

Interim Process

Until an agreement on these issues can be reached, CBFWA proposes the implementation of an interim process that would return certainty and stability to the Program for the remainder of the 2002-2006 Rate Case. The attached proposal outlines such a process, but assumes that discussions and negotiations for a long term definition of the Program will continue on a parallel course.

The attached "Interim Process Agreement Proposal" recommends returning to the planning processes that were employed during the previous Program MOA and would rely on the results from the first Rolling Provincial Review as a base for funding decisions. This process would include:

- developing a regionally approved SOY budget and project list in advance of the fiscal year;
- monitoring implementation of the Program through a series of quarterly meetings;
- establishing an unallocated placeholder to insure maximum implementation and flexibility of the Program budget within each fiscal year;
- modifying project budgets through a CBFWA/Council Within-Year Process, and;
- providing sufficient project funding for uncompleted tasks in successive fiscal years (carry-over).

We urge the Council and BPA to commit to the three-year, project specific, implementation plans developed during the process proposed here. The regional fish and wildlife managers engaged in the Council's three-year Rolling Provincial Review process that identified and prioritized fish and wildlife conservation efforts for the Columbia

June 3, 2003
Judi Danielson, NWPPC
Theresa Lamb, BPA
Page 3 of 3

River Basin. The expectation of participants was assurance of a three-year funding commitment. The initial Rolling Provincial Review process is being compromised by use of accrual-based accounting limitations to drive budgeting decisions. Under this process individual project budgets are being reviewed (and potentially altered) on a year-by-year basis. Project sponsors cannot continue to engage in an annual regional prioritization process that detracts them from accomplishing on-the-ground activities.

As you are aware, the majority of our Members do not support the current level of funding for the Program, and some are pursuing additional funding through the appropriate forums including the Safety Net Cost Recovery Adjustment Clause proceedings. Nevertheless, our Members are committed to apply whatever level of funding is made available in a way that is most beneficial to the fish and wildlife of the Columbia River Basin. To do this, it is important that we restore the working relationships that allow the Program to function efficiently and develop a common understanding of the implementation process.

CBFWA staff is available to discuss this proposal further and to answer any questions. Thank you for consideration in attempting to restore certainty in funding and effectiveness in project implementation.

Sincerely,

[signed]

John Palensky, Chair

CC: Members, F & W Managers, CBFWA
BPA Staff & Administrator
NWPPC Members & Staff

Interim Process Agreement Proposal

June 3, 2003

Overview

For the near term, the Columbia Basin Fish and Wildlife Authority (CBFWA) Members recommend that the Northwest Power and Conservation Council (Council) return to the planning and budget management process patterned after the 1996-2001 Bonneville Power Administration (BPA) Fish and Wildlife Memorandum of Agreement (MOA). This would include: 1) developing a regionally approved Start of Year (SOY) budget and project list in advance of the fiscal year, 2) monitoring implementation of the Fish and Wildlife Program (Program) through a quarterly review process, 3) establishing unallocated placeholders to insure maximum implementation and flexibility of the Program budget within each fiscal year, 4) modifying project budgets through a CBFWA/Council Within-Year Process, and 5) providing sufficient project funding for uncompleted tasks in successive fiscal years.

1) Develop a SOY budget prior to the beginning of the Fiscal Year

The annual SOY budget will be developed in two parts: Capital Plan and Annual Implementation Work Plan for Expense projects. Although project contracts may have origination and termination dates throughout the calendar year, the SOY budgets should provide spending plans for discrete federal fiscal years for each project (an amount that the project can spend between October 1 and September 30 each year).

Capital Plan

The CBFWA recommends that a Five-Year Capital Plan be developed to determine which specific projects will be capitalized by BPA, or will be available each year to be capitalized by BPA. This capital plan could be initially developed by Council, CBFWA, and BPA staffs based on recommended projects from the first Rolling Provincial Review Process and sent to CBFWA for regional prioritization and approval. The Council could then provide a public participation process and present a formal recommendation to BPA to implement the five year plan. The Capital Plan should include land and water acquisition opportunities as defined in the Safety Net Cost Recovery Adjustment Clause hearings and BPA's report to Congress on use of borrowing authority.

Annual Implementation Work Plan for Expense Projects

An expedited interim Rolling Provincial Review update, with BPA involvement, should be initiated so each province can construct a revised fiscal year spending plan based on their three-year budget allocation. Each province should also develop a Phase II budget to determine what additional needs and opportunities are available. In this way, the province level work plans could not only establish what should be funded with the limited amount of funds being provided by the BPA, but could also identify Biological Opinion critical projects within each province and demonstrate exactly how much additional funding is necessary to adequately protect, mitigate, and enhance fish and wildlife populations in the Columbia River Basin based on the most current information.

For this expedited funding update, all project budgets should be initially based on the results from the first Rolling Provincial Review as approved by the Council. These budgets should be reviewed and validated by the project sponsors. Since the Program budget has been reduced, no new solicitations should be initiated. Only proposals that were submitted and recommended during the Rolling Provincial Review Process would be eligible for funding during the 2004-2006 period. The CBFWA has developed a within-year budget modification process that allows for new start proposals to be reviewed and prioritized based on available unallocated placeholder funding (see Within-Year Budget Modification Process below).

The CBFWA would provide a review and comment on the proposed province level work plans through a three-year Draft Implementation Work Plan recommendation to the Council. The CBFWA work plan will focus on the needs of the fish and wildlife. Since only projects approved during the Rolling Provincial Review will be included, ISRP review will probably not be necessary for this expedited action.

Finally, in August of each year in coordination with the final quarterly meeting, the Council, BPA, and CBFWA staffs will present a SOY budget for the following fiscal year including potential project specific carry-over needs. This SOY budget will be sent to all project sponsors for review and comments, and then approved and adopted by the Council.

2) Reinstate a quarterly review process

The quarterly review meetings are intended to identify the available funds and direct any within-year project request through the appropriate process. The meetings should be scheduled for each quarter of the fiscal year. At the quarterly meetings, the Council, BPA and CBFWA staffs would track the accrual rates of project implementation and identify the unallocated placeholder funds available for potential within-year requests. This process allows project sponsors in danger of exceeding their spending caps to notify the region early and seek solutions that the region will support. The project representatives would present any budget modification requests. The group would then perform an administrative review of the requests in order to determine urgency and eligibility for review.

3) Establish unallocated placeholders for redistributing un-obligated funds

During the course of contracting, implementation and closing out projects, savings are incurred to the Program. Historically, these savings were collected in an integrated unallocated placeholder. In this way, as other projects established a need for additional funding, an avenue was available for augmenting budgets of ongoing projects to meet unanticipated needs. In the past a placeholder existed for Resident Fish, Wildlife, and Anadromous Fish projects. These “Unallocated Placeholders” should be re-initiated and monitored through the quarterly review process.

4) Within-Year Budget Modification Process

The within-year budget modification process was developed to allow all project sponsors an opportunity to modify, outside the funding cycles, existing projects that have been funded through the Program and new projects that meet specific criteria. The intent of the within-year budget modification process is to provide project sponsors with an opportunity to secure funds from the Program “Unallocated Placeholders” to 1) address emergency situations, 2) modify existing objectives/tasks, 3) change the scope of the project, and/or, 4) address increased costs (e.g., equipment cost increases since initial quote) that are beyond the control of the project sponsor.

For new projects this process specifically applies to 1) proposals that were previously recommended for funding by the CBFWA and Council, but were not funded by the BPA, 2) expansions of scope necessitated by an unanticipated and urgent need of currently funded projects, and 3) new proposals that were not reviewed during the Rolling Provincial Review but address an unanticipated and urgent need that cannot be deferred until solicitation for the applicable province is open.

The CBFWA has adopted guidelines for their within year review process and they are available at <http://www.cbfwa.org/files/BudgetMods/Default.htm>. Each within-year modification request will be reviewed for 1) technical and management deficiencies, 2) ability to address needs identified in the subbasin summaries/plans, 3) consistency with the Council Fish and Wildlife Program and Endangered Species Act Biological Opinions/Recovery Plans, and 4) budget constraints, before it is submitted to the BPA with a “fund” recommendation. The CBFWA would forward their recommendations to the Council for consideration.

5) Carry-Over Policy

The Council and BPA should define a carry-over policy that secures funding for projects that do not complete tasks within a given fiscal year. During the development of the SOY budget, projects should be evaluated to determine how much of their current year budget would not be spent. Projects with significant unspent funds should be evaluated to determine what tasks or objectives would not be completed. For the following fiscal year, those projects deemed justified should be provided additional funding to allow completion of tasks in the following year. These carry-overs would be approved by the CBFWA, Council, and BPA through the annual SOY budget process.

6) Schedule

The following schedule should be implemented immediately to assure completion of a FY 2004 SOY budget prior to October 1, 2003 (see attached schedule and deliverables).

- May – The CBFWA, Council and BPA staffs would draft a description of the review process consistent with the above guidelines for review by the CBFWA, NWPPC, and BPA. The process should be reviewed and approved by CBFWA.

- June – The Council and BPA agree to adopt the SOY process and begin implementation. BPA identifies specific Biological Opinion needs for all provinces.
- Late June through July – The province teams meet and create three fiscal year spending plans based on budget allocation and province priorities.
- August – The CBFWA and Council Fish Four review the province level recommendations and the CBFWA approves a 2004-2006 Draft Implementation Work Plan based on the province level recommendations.
- September – The Council adopts FY 2004-2006 Work Plan.
- Quarterly – Implementation review meetings should be scheduled to provide an opportunity for within year budget modifications and review of the BPA's actual accruals. If accruals begin to show signs of exceeding BPA's cap, programmatic actions will be taken at a regional level to protect BPA's financial condition
- In June-August each year, the outyear SOY budgets will be reviewed and updated and the Capital Plan will be reviewed and updated. This process will also determine the level of carry-over necessary for individual projects.

Conclusion

This process is proposed as an interim measure through the current rate case and to fill the gap until Subbasin Planning is complete. As better accounting is developed and implemented at the BPA and improved Program architecture and process is developed, modifications to this process will be adopted. All parties should increase efforts to redesign the entire implementation process for the Program based on a long term view considering the implications of Subbasin Planning, Recovery Planning, and the development of an implementation agreement that maximizes effectiveness and efficiency within the Program. During restructuring, it is imperative that the BPA and Council include representatives from the CBFWA and other project sponsors to insure that the solutions that are discussed meet the needs of all participants.

Interim Process Agreement Schedule and Deliverables:

Task Name	2003												2004											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
NWPCC Fish Four/Council meeting - approval of Interim Process Agreement with budget allocation, BPA provide statement of support for process						◆ 6/10																		
Rolling Province Review - province work groups (with BPA involvement) develop 3-Year Spending Plans based on budget allocation																								
CBFWA MMG meeting - review and comment on Province Work Group proposed 3-Year Spending Plans through development of a Draft FY 2004-2006 Draft Implementation Work Plan (DIMP)								◆ 7/29																
NWPCC Fish Four meeting - review Province Work Group proposed 3-Year Spending Plans and CBFWA DIMP and prepare decision document								◆ 8/12																
NWPCC Meeting (September) - Approve FY2004-2006 Spending Plans																								
Quarterly Review Meeting - 1st meeting, SOY corrections												◆ 12/17												
Quarterly Review Meeting - 2nd meeting, within year requests															◆ 3/17									
Quarterly Review Meeting - 3rd meeting, within year requests																		◆ 6/16						
Develop FY 2005 SOY Budget - NWPCC staff, BPA staff and CBFWA staff ground truth FY 2005 Start of Year budget																								
Quarterly Review Meeting - 4th meeting, determine carry-over needs for FY 05, within year requests																					◆ 8/18			
NWPCC adopt FY 2005 SOY Budget																								

H:\work\consent\InterimProcess\InterimProcessProposal060303Final.doc