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August 5, 2003

## MEMORANDUM

**TO:** Fish and Wildlife Committee members

**FROM:** Patty O'Toole

**SUBJECT:** Update on start of year 2004 policy issues and accounting protocols

- **2004 start of year policy issues**

There are several policy issues regarding 2004 Fish and Wildlife Program implementation and the start-of-year budget that staff will discuss at the August meeting. Bonneville's fiscal crisis in 2003, and the expiration of province recommendations for two provinces prompted staff to meet with project sponsors during July and August to review the status of project work and budgets. In 2003, work may have been delayed or deferred because of spending limits for individual projects. After meeting with sponsors, the Council staff has a better understanding of the effects of the spending limits on recommended work.

The following are policy issues that are need discussion at the August meeting and resolution in September.

**Land Acquisitions.** In most cases, land acquisitions have not moved forward. This may be due to slow issuance of contracts, lack of a final agreement between sponsors and Bonneville and the "land as capital" issue. From our discussion with sponsors, most land acquisitions are ready proceed in 2004. In a few instances, opportunities to acquire key pieces of fish and wildlife habitat have been lost due to inaction. Council staff proposes that Bonneville make past unspent capital funds available in 2004 so that the Council's Fish and Wildlife Program recommendations can be implemented.

**Intermountain and Columbia Gorge Province recommendations.** Recommendations for these provinces expire in 2003. Although three year funding recommendations were issued by the Council for these provinces in 2001, most project sponsors have requested continued funding. In some instances, delays in contracting and delays in work have caused projects to fall behind in implementation. The staff would appreciate guidance from the Committee on the following questions. Are there certain "base" (O&M) projects in these provinces that should be recommended for continued funding through 2004 and 2005? Are there projects that were

approved as research or habitat restoration projects that are not considered part of the “base” program (O&M) that would not be recommended for continued funding until subbasin plans are adopted into the Council program? What about projects that are not part of the base program but are “behind” due to delays in contracting or budget reductions? Should these projects be funded to complete the objectives of the proposal?

**Projects that request “rescheduling work in 2004”**. Many projects sponsors have told us that for many reasons, work could not be completed as planned in fiscal year 2003 and the project sponsors would like to complete this work in 2004. Consistent with accounting principles under consideration by Bonneville, it is possible that this work may be “rescheduled” into 2004, and funding would accompany the project from 2003 into 2004 in order to complete the work. There are many examples of projects that would benefit from this kind of flexibility. Also included in this discussion are projects that experienced a delayed start of one year, and are requesting that their annual project budgets be realigned to match the pace of expected work (includes projects designated as “phase 3” by Bonneville).

In addition to the issues described above, the following are issues that arose from the provincial meetings, and staff recommends that these be addressed at “quarterly review” meetings with Bonneville, CBFWA and Council staff.

**Requested increases**. Project sponsors are requesting administration cost increases in their project budgets for many reasons. These include increases in indirect costs, cost of living adjustments, salary increases and vehicle fleet cost increases. In addition, sponsors have indicated a need for additional funds because project costs have increased although the scope and intent of their project has remained as recommended by Council. The Council staff recommends that these be addressed at quarterly review meetings, as available funding allows.

Finally, some sponsors have documented the need for additional funds because the scope of their project has changed in some manner. These projects would be addressed through a within-year modification process that would include Council consideration, be based on available unallocated program funds and be consistent with past processes.

- **Accounting protocols**

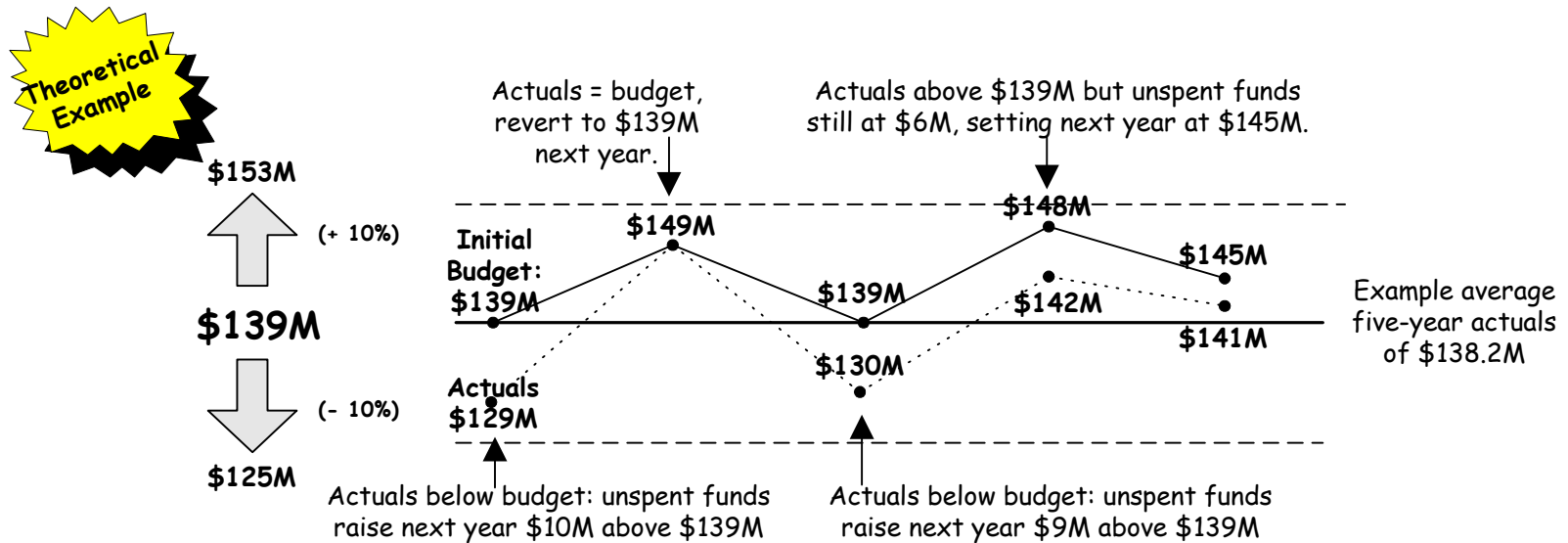
The Council, Bonneville and CBFWA staffs have been meeting to discuss Bonneville’s accounting protocols and concepts that Bonneville is considering in 2004. At the August meeting Bonneville will review these concepts with the Fish and Wildlife meeting. The following material is consistent with discussions to date.

# Proposed Budgeting Rules for the Expense Portion of the Fish and Wildlife Program (FYs '03 to '06)

The strategy of the proposed budgeting rules for the F&W program is:

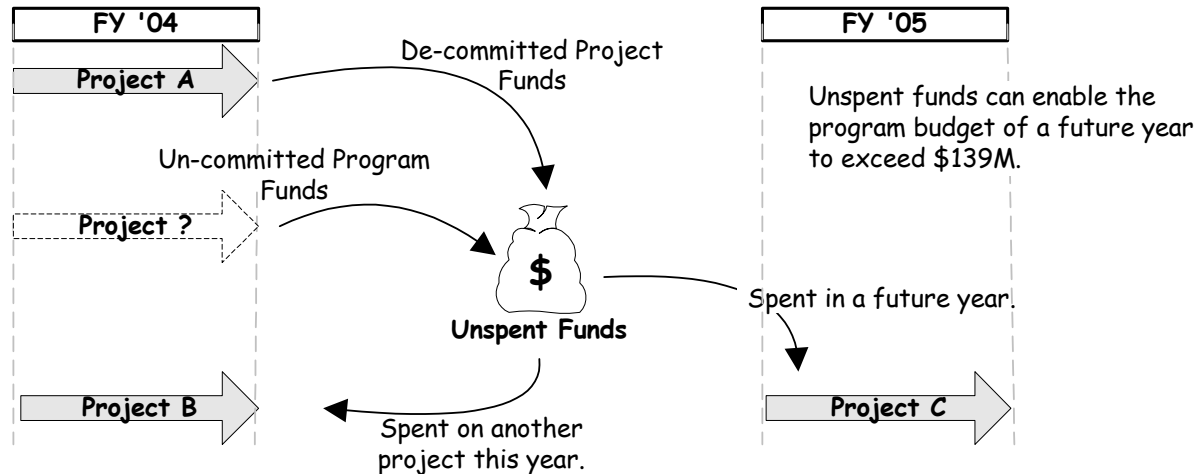
- Align Council, CBFWA, and BPA budgeting activities.
- Enable greater flexibility in the the F&W program to adapt funding to match the timing of work performance.
- Support timely and consistent contract management practices.
- Provide transparency in project management activities and promote the resolution of implementation issues.
- Enable BPA to manage its financial operations and exposure.
- Work in concert with a multi-year Provincial/Subbasin review schedule.

# The F&W Program Budget Needs to Adapt to Support Actual Project Progress, Yet Remain Within a Controlled Range



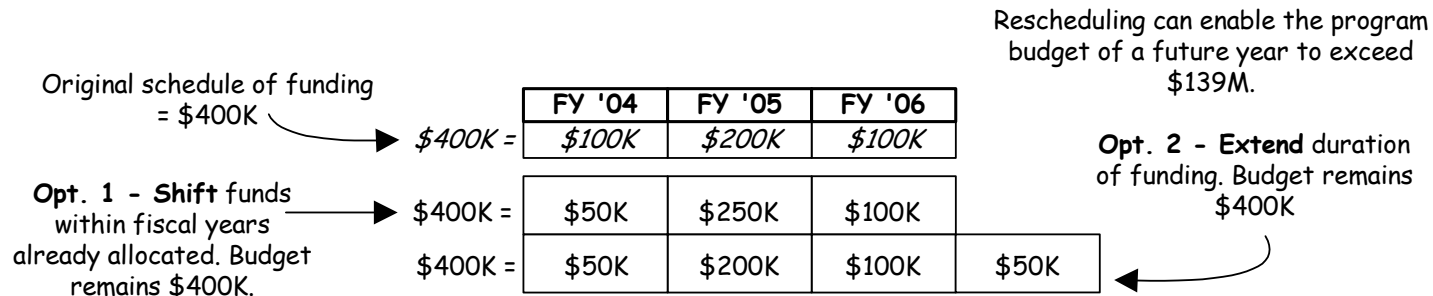
- Establish an annual budget that utilizes a four-year (FYs '03 to '06) funding level of \$556M.
- The annual budget can fluctuate as is appropriate to support the work, but by no more than 10% of the four-year annual average of \$139M.
- Program flexibility comes from two sources: Rescheduling and Unspent Funds.

# Unspent Funds Provide Flexibility



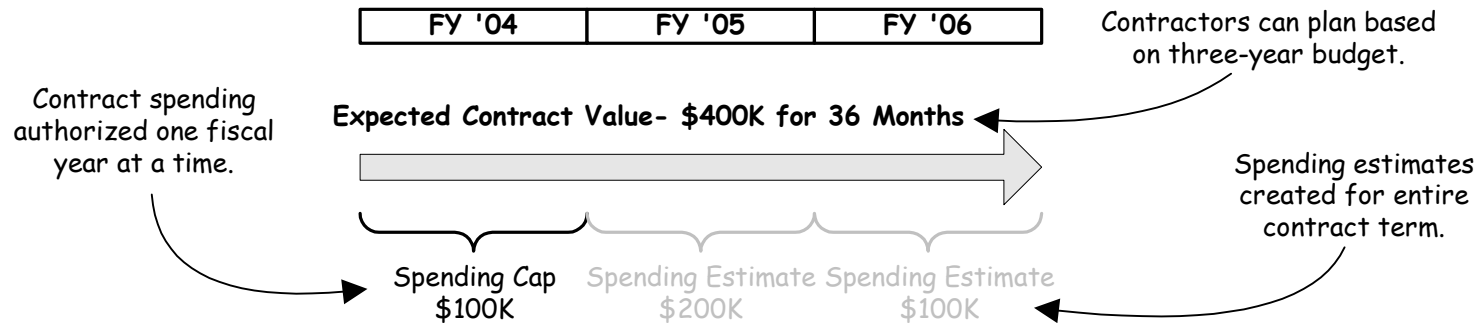
- The pool of unspent funds is comprised of de-committed project funds and those funds not yet committed by the program.
- Unspent funds can be spent on other projects in the current or future years as determined by the Council, CBFWA, and BPA, as long as the annual program budget remains within +/- 10% of the \$139M program average.
- Rescheduled funds (those shifted across budget years of a single project) are not considered unspent.

# Rescheduling Creates Flexibility to Match the Timing of Work Performance



- Rescheduled funds are those shifted across the performance period of a single project, without affecting the project's overall budget.
- In response to rescheduling, spending caps and out-year estimates are adjusted on a quarterly basis to match the reality of project progress and unforeseen changes. BPA reports rescheduled project budgets to the Council and CBFWA at quarterly reviews.
- Because rescheduled funds are required to support a project's future work, they can not be used to make new commitments to other projects.
- Rescheduled funding must be within +/-10% of the average program budget, \$139M.

# Multi-Year Contracting and Spending Caps Enable This Model



- In concert with the Provincial/Subbasin reviews, establish multi-year contracts with multi-year project budgets.
- Establish spending caps to provide the right amount of funding to enable work as it is planned to occur.
- Work with contractors to adjust spending caps and out-year estimates as the true timing of work becomes apparent.

# Results of This Strategy

- Council and BPA can align budgets that reflect actual project progress while working within financial limitations.
- Brings stability to project funding by giving contractors a view of the overall budget and enables flexibility in the timing of spending, as needed.
- Allows the program budget to be used to the maximum extent because funds not spent during a specific fiscal year are not lost to the program.
- Dramatically enhances the ability to forecast future expenditures, accurately manage budgeting data, and simplify the overall budgeting process.



# Status of Implementation

- Council staff, CBFWA, and BPA have identified the goals and high-level features of the strategy, and have begun a disciplined process to address documented issues and move through increasing levels of detail.
- The first key deliverable is an agreed-upon general structure by mid-September, 2003.
- We are working on synchronizing this strategy with the current FY'04 budgeting activities.
- Efforts to incorporate the feedback of stakeholders, including F&W contractors, will begin immediately.
- The results of this work will be memorialized via letters from BPA to the Council and region.
- The Council, CBFWA, and BPA intend to publish documentation and conduct training to guide stakeholders through the new budgeting model.
- Budgeting rules for capital will be developed upon completion of a revised capital plan.