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Washington

Ed Bartlett
Montana

John Hines
Montana

December 2, 2003

MEMORANDUM

TO: Fish and Wildlife Committee Members

FROM: Patty O'Toole

SUBJECT: 2004 - 2006 Fish and Wildlife Program Update

Purpose: This is an informational update and no action is requested.

Council staff reviewed fiscal year 2003 budget information with the Fish and Wildlife Committee at the November meeting. Staff will present an update of the 2003 actual expenses to date, and the outlook for the 2004 budget and the outcome of the November Program Status Review.

Implications of fiscal year 2003 expenses on 2004 and beyond

In August, Council and CBFWA staff anticipated that the program would accrue approximately \$124 million in expense for FY 2003. This was based on slow reported project spending through August 2003. The FY 2004 budget of \$154 million was developed with the dual goals of maintaining the integrity of the existing Council Fish and Wildlife Program recommendations and allowing catch up through implementation of the rescheduling concept, and managing the Program to an annual average of \$139 million for the remainder of the rate case.

Bonneville expects to have *most* of the FY 2003 invoices in by December 31, 2003. In January, we will know if "actual" expenditures for FY 2003 came in less than the estimated \$140.5 million. Approximately \$112.4 million was reported for actual expenditures and approximately \$29 million was reported for year-end accrual estimates. Of the \$29 million estimate, Bonneville has received invoices for \$15.3 million to date. We anticipate that the difference between \$139 million and the actual expenditures will be credited to the available budget for FY 2004. Right now, the Council recommended budget for 2004 stands at \$154 million. If the total actual expenses come in near \$139 million and our recommended budget for FY 2004 stands at \$154 million with no credit available from FY 2003, the FY 2005 and FY 2006 budgets would need to be reduced below \$139 million in order for the four year annual average to total \$139 million. I have described two possible scenarios below.

Strategy	FY 2003	FY 2004	FY 2005	FY 2006	Total
Average of \$139 million	\$139,000,000	\$139,000,000	\$139,000,000	\$139,000,000	\$556,000,000
Split difference of average into 2005 and 2006	\$140,500,000	\$154,000,000	\$130,750,000	\$130,750,000	\$556,000,000
Catch up to average in 2006	\$140,500,000	\$154,000,000	\$139,000,000	\$122,500,000	\$556,000,000

First quarterly Program Status Review meeting report

The first Program Status Review meeting for FY 2004 occurred on November 13, 2003. Council, Bonneville and CBFWA have been working to assess the information collected at the meeting. The meeting focused primarily on budget adjustment requests. We did not review 2004 fiscal year pace of project spending as the fiscal year has just begun. Many project sponsors have requested budget adjustments. These requests have been sorted into three groups: projects that are candidates for “rescheduling”, projects that are candidates for “within year modifications” and projects that need budget adjustments for other reasons. “Rescheduling” requests (beyond those included in the Council recommendations) total approximately \$1.6 million, within-year adjustment requests total approximately \$4.7 million and the other requests total approximately \$6.3 million.

The “other” requests for budget adjustments include several categories of needed budget adjustments. First, there are corrections to the FY 2004 start-of-year budget. These corrections are due either to errors in the start of year budget or due to incomplete information at the time of budget development. Council staff considers these corrections as urgent needs for adjustment. Also in this “other” group of projects, are those that have an active contract with Bonneville, but don’t have a FY 2004 Council recommended budget. This includes projects such as the NATURE’S project and the conservation enforcement projects. The Council did not recommend these projects for continued funding in 2004, but there are active contracts for these projects that began in FY 2003 and expire in FY 2004, resulting in expenses accruing in FY 2004. This group of projects also includes projects that the Council assumed would be capitalized in 2004, but Bonneville reports that they do not meet the capital definition and must be incorporated into the expense budget.

Next steps:

Council staff will work with Bonneville and CBFWA staff to review the 2003 actual expenses after the end of December, when Bonneville expects to have reviewed most of the invoices for work completed in FY 2003. This will allow staff to determine if the assumption that the Program would under-spend the \$139 million spending target for FY 2003 was realized. Council staff will then determine if it is possible to maintain the existing Fish and Wildlife Program recommendations for FY 2004 and still manage Program spending to an average of \$139 million

per year. Council staff will also consider the budget adjustment requests reviewed at the November Program Status Review meeting and develop an implementation strategy based on available funding.

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November 7, 2003

MEMORANDUM

TO: Fish and Wildlife Committee Members

FROM: Patty O'Toole, Doug Marker

SUBJECT: 2003 close out discussion

Purpose: This information, from the November Fish and Wildlife Committee packet is provided to Council members as additional background information for the December Council meeting. This is an informational update and no action is requested.

FY 2003 review

On February 21, 2003 the Council submitted spending recommendations to Bonneville for approximately 320 projects and identified budget placeholders for a total of less than \$139 million. This was in response to Steve Wright's letter of December 10, 2003 asking for help from the Council to ensure that Fiscal Year 2003 fish and wildlife program expense spending would not exceed Bonneville's target of \$139 million. During the year, Council staff, BPA and CBFWA met several times to track the project FY 2003 accruals.

In August, Council and CBFWA staff anticipated that the program would accrue approximately \$124 million in expense for FY 2003. This was based on slow reported project spending through August 2003, and historical billing performance for the month of September. Council developed the \$154 million budget recommendation for 2004 anticipating that the pace of project spending would result in program accruals of approximately \$124 million. With spending near \$124 million in FY 2003, and a \$154 million expense budget for FY 2004, the program expense budget would average of \$139 million. In October, Bonneville closed its FY 2003 books with \$140.5 million expense, considerably higher than anyone involved in the process to date anticipated. This was reported to the Fish and Wildlife Committee at the October meeting in Missoula.

CBFWA staff, and Council state and central staff have performed an analysis on the FY 2003 expense budget since the October Council meeting and have concluded several things with regard to the deviation from the August FY 2003 spending prediction and what Bonneville actually booked at the end of the fiscal year.

- It appears that there were significantly different expectations between the Council and Bonneville as to how to implement the Council's February 21st spending targets. The Council's expectation was that all projects were being managed to the spending targets recommended by the Council on February 21st --, whether those targets were incorporated into contracts or not. On the other hand, Bonneville apparently considered the Council spending targets to be useful only if they were incorporated into project contracts. However, Bonneville maintained its status quo contract renewal schedule, which made it impossible for it to implement the spending targets contractually for most of the projects.. Bonneville opted to implement the Council recommended budget targets beginning in May 2003, as project contracts expired and were renewed. This resulted in only 68 of 326 projects having contract spending caps in place by the end of FY 2003. Approximately two thirds of the contracts expire and are renewed between October and December, so most projects had already been renewed and budgets developed by the time the Council prepared its February revised budget. More project contracts were renewed by the time Bonneville without spending caps prior to May. Although 147 projects exceeded their accrual cap for a total of \$9.8 million, another 171 projects finished the fiscal year below their accrual cap by about \$14.6 million. This resulted in net under-spending of approximately \$4.8 million, but we anticipated under-spending in August of 2003 to be much greater.
- FY 2003 expense spending came in higher than anticipated because it appears that a significant number of projects over-accrued their FY 2003 spending cap because work performed in FY 2002, but billed in FY 2003, was accounted for in the FY 2003 project budget. Council staff had no way to know or anticipate this level of FY 2002 work billed in FY 2003. We came to understand as we managed adjustments through the year that a few project had late bills come in that were not accounted for in the FY 2002 year end accrual estimate, but we thought we had accounted for these during each of the budget adjustments we performed. CBFWA staff contacted several project sponsors and they confirmed that the major cause of over accruals for their projects was FY 2002 work billed in FY 2003. This situation also invites the question of whether or not there were expense savings in FY 2002 that should have been made available to augment FY 2003 since it is clear that some FY 2002 work was paid for with FY 2003 budget. The amount of work was billed in 2003 and affected the 2003 budget is not currently available from Bonneville.
- Six million dollars in projects were included in the fiscal year close-out for projects that Bonneville funded, that were not in the Council's Feb 21, 2003 fiscal year budget. These include projects we understood could (and should) be capitalized, costs associated with land acquisitions we believed should be billed to the Washington Wildlife Agreement, and a water leasing project that we believed would be accounted for in the Power Business Line.

Bonneville has conducted a review of all projects that exceeded their Council recommended spending cap to determine the cause and this information will be available at the November Council meeting.

Implications for 2004 and beyond

Bonneville expects to have most of the FY 2003 invoices in by December 31, 2003. In January, we will know if “actual” bills for FY 2003 came in less than the estimated \$140.5 million. Approximately \$112.4 million was reported for actual expenditures and approximately \$28 million was reported for year end accrual estimates. We anticipate that the difference between \$139 million and the actual expenditures will be credited to the available budget for FY 2004. Right now, the Council recommended budget for 2004 stands at \$154,000,000. If the total actual expenses come in near \$139 million and our recommended budget for FY 2004 stands at \$154 million with no credit available from FY 2003, the FY 2005 and FY 2006 budgets would need to be reduced below \$139 million in order for the four year annual average to total \$139 million. I have described two possible scenarios below.

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First quarterly Program Status Review meeting report

The first Program Status Review meeting for FY 2004 will occur on November 13, 2003. Council staff will report on the outcome of the meeting at the November fish and wildlife committee meeting. The goal of that meeting is to review and discuss the FY 2004 budget, acknowledge errors in the budget, discuss rescheduling and within-year modification requests.

Bonneville Power Administration - Fish and Wildlife finance update.

Bonneville representatives will report on the accounting and project management changes being implemented, and the FY 2003 and FY 2004 budget.