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March 30, 2004

MEMORANDUM

TO: Council Members

FROM: Patty O'Toole

SUBJECT: Fiscal Year 2005-2007 Fish and Wildlife Program budget review and development process.

Introduction

The central and state staff has been scoping potential fish and wildlife implementation strategy for Fiscal Years 2005 through 2007. We discussed this topic with the Fish and Wildlife Committee in March and will take the opportunity in April to update the Committee and Council as to what we see as the general implementation policy issues for the next three fiscal years (FY) of Program implementation. While we do not seek formal recommendations or approvals at this meeting, we do seek to have continued Committee and Council guidance on our general strategic direction.

Large-scale issues that inform program implementation strategy for the next three years.

In discussing the general strategy for program implementation over the next few years, the staff has identified four major issues that it believes must shape program implementation strategy for the next three fiscal years:

1. Continue to support work approved in Council's provincial review decisions;
2. The Council's three-year provincial review approvals began to expire in FY 03, the Council's recommendations for four more provinces expire at the end of FY 04¹, and all but mainstem/systemwide conclude with Fiscal Year 2005;

¹ Five other provinces have recommendations that extend through Fiscal Year 2005, and the mainstem/systemwide group Council recommendations expire after Fiscal Year 2006.

3. Subbasin plans become available to guide program implementation beginning in Fiscal Year 2006;
4. Program funding levels and project selection procedures for Fiscal Year 2007 and beyond are not established at this time.

Recognizing the above, the staff has generally framed program implementation strategy as represented in the attached diagram. The following is an explanation of what we are attempting to depict in the diagram.

Fiscal Year 2005

Implementation in Fiscal Year 2005 continues to rely on the Council's completed provincial review process. The primary objective is to ensure that the work previously approved by the Council is completed. We will need new Council recommendations for the four provinces that have their provincial review recommendations expire at the end of Fiscal Year 2004² similar to what the Council recommended for the expired provincial recommendation in the FY 2004 exercise. However, the staff believes that there have been implementation delays for work that the Council approved in its provincial reviews. Therefore, guided by an implementation policy that the Council continues to support the work it approved in the provincial reviews, a primary objective for Fiscal Year 2005 would be to review the status of that work approved in the provincial reviews, and provide a workplan to complete it. For those provinces with Fiscal Year 2005 as the final year with Council recommendations, we would rely upon those recommendations except where unique circumstances for a project may dictate otherwise.

In addition to reviewing and scheduling the completion of work approved in provincial reviews, the Council would renew its recommendations for foundational operation and maintenance/monitoring and evaluation type of work. The staff believes that there is a certain amount of "core" program funding needs in each province and subbasin -- operation and maintenance of artificial production facilities constructed pursuant to the program is an example -- that would need to be renewed for Fiscal Year 2005. The staff believes that this core work would be funded at a level consistent with the provincial review funding recommendation. An implementation policy recognizing that subbasin plans should be the basis for confirming all Bonneville funding work suggests that a single year of "level funding" for this core work be recommended, with a closer review taking place for Fiscal Year 2006 when subbasin plans are available.

The element discussed here is one that the staff discussed with the Committee at the March meeting. It deals with funds that remain available within the original province allocations after funding the work discussed above. Specifically, the staff believes that a Fiscal Year 2005 workplan that focuses on completing the three-year provincial review recommendations and renewing core projects for one year may not consume the entire province funding allocation that was established in the provincial review process. Three alternatives regarding remaining funds were discussed with the Committee and the Committee supported the alternative that would count remaining funds as savings needed to balance the fish and wildlife program budget for FY

² Blue Mountain, Columbia Plateau, Mountain Columbia, Mountain Snake.

2005 overall and/or use the funds for within-year needs across the program as a whole. Other alternatives considered included reprogramming those funds within the province for additional new or expanded work in Fiscal Year 2005; or counting remaining funds as savings that could be applied to the available budget in FY 2006.

Work plan and budget development process for FY 2005

A workgroup consisting of Bonneville and CBFWA staffs and Council central and state staffs have worked together to develop a general process for FY 2005 workplan and budget development. We are targeting the June and July Council meetings for presenting recommendations on the work plan and budget. Between now and the June Council meeting the work group will perform a brief review of the status of individual projects utilizing the Council recommendations, contracts and performance. We will work with project managers at Bonneville to gain an understanding of the contracting status of projects relative to the recommendations from the Rolling Province Reviews (RPR). The workplan and budget will be built based on project needs identified during the RPR. A budget target will be established at the policy level and strategies to meet the target will be applied after the draft workplan and budget are established. Project sponsors will have the opportunity to review the draft workplans, budget and strategies and discuss their project with the workgroup during the month of May. In addition, the workgroup will identify project budget needs for FY 2006 during this process, but these will not be presented as recommendations for Council, pending the adoption of subbasin plans that will guide implementation of a portion of the Program in FY 2006 (see below). Staff recommendations regarding the FY 2005 workplan, budget and strategies will be presented to the Committee in June and to the Council in July.

Fiscal Year 2006

The overall strategic direction is framed in this year by the major issues identified above. Subbasin plans will be available to review proposed work and guide project funding recommendations. Subbasin plans, rather than past provincial review decisions, will be the new guides for Council recommendations. We will be in the final year of the rate period in which Bonneville has committed an annual average of \$139 million/year in expense and \$36 million in capital access, yet we should have completed a long-term funding agreement that will set the overall budget level for FY 2007 and beyond.

The diagram shows that the major implementation strategy for Fiscal Year 2006 is to confirm the core work across the program and to also identify and implement the most critical needs and/or key opportunities that are revealed in subbasin plans. Implementing this strategy starts, obviously with adopting subbasin plans by early calendar year 2005, and initiating a solicitation for “core work” or “urgent needs/key opportunities” in the spring of 2005.

The staff does not see how a broad, basinwide solicitation for new work based on adopted subbasin plans would be justified for Fiscal Year 2006 in light of apparent overall program budget limitations. We believe that we would have to have considerably more certainty about overall program budget funding for Fiscal Year 2006 than we have now to justify planning a broad request for new and additional work. On the other hand, the staff has discussed using the Fiscal Year 2006 funding recommendation process to identify the core work that is supported by adopted subbasin plans, and extending longer-term Council funding recommendations for that

work -- up to five years. The staff continues to weigh the pros and cons of this. On the pro side, we have discussed that putting the core work supported by subbasin plans on a longer-term approval would be a process-reduction benefit and allow the new solicitations to focus a narrower set of project proposals. On the other hand, some believe that this would eliminate the possibility of reviewing ongoing or core work along with new proposals, and that it would have the practical effect of making partial province funding allocation decisions. The staff is particularly interested on the Committee's and Council's thoughts on the concept of approving, for a longer term, core work supported in subbasin plans in FY 2006.

Fiscal Year 2007

This is the first year of the new rates period. We believe that work in FY 2007 program implementation begins with reviewing the basic project review and selection model. If we want to have a staggered process like the rolling provincial review again, some form of allocation formula appears to be necessary. Alternatively, Fiscal Year 2007 could include a basinwide solicitation, with the strength of subbasin plans and project proposals tied to them driving the funding decisions with no province allocations or only loose allocation guidelines in place. We could move into a rolling province review in Fiscal Year 2008 after that. We would like to continue this discussion with the Committee and Council in the next months.

FY 2004 Budget report by Bonneville staff

Staff from Bonneville will give a brief report on the status of the FY 2004 Fish and Wildlife Program budget if time allows.

FY 2004 – 2007 F&W Program Implementation Strategy

FY 2005

Program Focus:

Completing work on existing Council recommendations

Elements: As recommendations expire, consider: 1) renew work and budget for “core” program work, 2) complete other approved and recommended in the province reviews, 3) retire project where recommendations have expired, and work is not “core” program work or where continuing work does is not logical .

Subbasin plans adopted into F&W Program January 2005.

FY 2006

Program Focus:

Part I of subbasin plan implementation

Elements:
Initiate consistency review of ongoing/ core projects with subbasin plans (in spring 2005)

Implement on-going/core program work that is consistent with subbasin plans, develop a long-term Council recommendation

Identify and recommend funding for urgent needs/key opportunities identified in subbasin plans

Initiate consultation on funding allocation (spring 2006),

FY 2007

Program Focus:

Part II of subbasin plan implementation (consider staggered review)

Elements:
Initiate project solicitation and review for new work (spring 2006)

Implement proposals for new work consistent with subbasin plans

Implement new allocation strategy

New rate case begins



BPA's Update on FY 2004 Budget

April 2004

Update on F&W FY 2004 Budget

F&W Program Budget as of January	\$154.0M
Council-Recommended Corrections	+\$1.3M
BPA Additions For Existing Contracts With No Budgets	+2.4M
BPA Adjustments For Over- and Under- Accruals ^{1/}	-\$6.2M
Resulting Project-Level Budgets	\$151.5M

^{1/} The accrual adjustment is an accounting-only adjustment and does not affect contracting

Update on F&W FY 2004 Budget

- The combined effect of these adjustments is that the project-level budgets now total roughly \$151.5 million.
- BPA needs to keep available the \$1.5M difference between \$153M and \$151.5M to cover any additional invoices coming in for FY 2003 work.
- BPA is looking at each project in order to determine if there is under-spending expected.

Update on F&W FY 2004 Budget

- There are other potential issues that may arise. BPA's Corporate Finance has asked that all work orders be reviewed and identified as capital or expense, and this effort has just begun. This could result in some projects that are currently considered capital having portions that must be expensed.