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June 1, 2004

TO: Fish and Wildlife Committee Members

FROM: Patty O'Toole, Program Implementation Manager

SUBJECT: Fiscal Year 2005 Fish and Wildlife Program funding recommendation

Action: Following the last several months of project review with Bonneville and CBFWA staff, the staff recommends the Fish and Wildlife committee recommend forwarding the attached preliminary budget to the Council in July for review and approval. Council staff will present this request to the Fish and Wildlife Committee during the June meeting.

Recommendation: The staff recommends that the attached preliminary budget be recommended to the Council for approval at the July meeting.

Background: In prior discussions with the Fish and Wildlife Committee and the Council, there was agreement to focus efforts in fiscal year (FY) 2005 on completing work that the Council recommended during the provincial review. Council, CBFWA and Bonneville staff have worked over the last three months to identify the appropriate work plan and costs for FY 2005 based on complemented reviewed and recommended work. There is general agreement between Council, Bonneville and CBFWA staffs that the attached preliminary budget represents the costs for performing the scopes of work recommended by the Council in its original provincial reviews. The staffs agree that sufficient analysis was completed to determine that this list represents consistency with the Council's adopted recommendations during this period of transition to subbasin planning implementation and reasonable costs.

The total budget amount is near \$145 million. It should be noted that this amount does not include sponsor requested increases, which are generally reflect increased costs for performing the work approved by the Council. Council staff believes that this budget could work if spending pace is slower than budgeted for FY 2004, and the program spending stays at an average of \$139 million for the current rate case.

Actual spending depends on the pace of work accomplished against our current FY 2004 workplan and budget. We have asked Bonneville to look at balances under contract, the pace of work being completed and to assess what spending is likely to be required in the remainder of FY 2004. Current indications are that spending is well behind the pace to reach \$153 million,

but we all recognize that we need to be careful about making any assumptions given the levels of spending that occurred late in FY 2003. We plan to work with BPA and CBFWA staff to track spending and review spending forecasts. We don't recommend prioritizing work or developing a plan to reduce spending in 2005 until we see that the risk of spending over an average of \$139 million per year for the remainder of the rate case is high.

We continue to experience new pressures on the approved expense budgets from changes in Bonneville's accounting. Again, the program has undergone many changes related to accounting and now capital policy changes make it impossible for Council staff to manage the expense portion of the budget. The effect of reallocating current capital project spending to the approved expense budget is potentially significant and needs its own discussion with Bonneville management.

Our review of project work that we conducted during the last three months demonstrated that, in general, projects are behind in implementation. This could be due to a number of factors such as contract periods that lag behind recommendation years, permit delays, and other reasons. This would lead us to believe that spending should lag behind the recommended pace, along with project work. This should result in unspent funds in FY 2004, that would be available to spend in FY 2005. Again, slow project billing could impact this assumption based on the new accounting process Bonneville has implemented.

Next steps: We look to Bonneville for regularly updated spending forecasts. If it appears that there is a high risk that the program could spend more than \$139 per year on average, we have two alternatives to consider. Bonneville could prepare recommendations about how to prioritize implementation of work for FY 2005, to match pace of implementation with available funds, or Council staff could work with Bonneville to develop principles and recommendations to do the same thing.

We are looking to Bonneville to ensure they are contracting consistently with the project elements that were reviewed and approved by the Council in the provincial review. Work that is implemented outside of the Council recommendations would push spending higher than what the Council has recommended

In addition to the overall budget issue, Council staff believes the Fish and Wildlife Committee needs to consider some additional programmatic issues.

We are proposing to treat projects that were considered "placeholders" in the past as specific projects in the FY 2005 budget. These projects need special consideration by Committee members as their scope of work and proposed budget varies from year to year. Former placeholder projects are:

- APRE: Staff recognizes a need to implement the recommendations stemming from the Artificial Production Review Evaluation, the associated report to Congress, the issue paper and public comments. The current draft issue paper recognizes three prominent themes. First, there is a need to support an ongoing hatchery review forum so that the work accomplished in the APRE does not grow stale. Second, there is a need to implement near-term hatchery reform actions. This includes setting priorities for reform and assessing feasibility of proposed actions. Finally there is a need to discuss

synchronization between local subbasin goals and objectives for artificial and natural projection with regional, national and international production goals. Conflicts between various programs and goals need to be identified and addressed. The amount of funding for these activities will vary with the level of intensity that the Council agrees is appropriate. Current staff estimate is approximately \$900,000 for FY 2005, if a significant level of effort is applied to implementation of the APRE.

- ISRP/ISAB: The level of effort required by the Independent Scientific Review Panel (ISRP) to review elements of the program depends upon how subbasin plans are implemented and the associated processes that are established for FY 2006. If subbasin plans are implemented across the basin in FY 2006, and project solicitation and review are required for all projects in FY 2005, the ISRP would have to perform a large review of projects. The level of effort for the Independence Scientific Advisory Board (ISAB) is expected to be consistent with efforts in prior years. Staff estimates the level of effort for the ISRP/ISAB to cost approximately \$1,046,953. It is possible to revisit this level of effort and budget periodically throughout the year to determine if it remains appropriate.
- Columbia Basin Water Transaction Program: This program, administered by the National Fish and Wildlife Foundation implements RPA 151 of the 2000 Biological Opinion and section A.8 of the Council's Fish and Wildlife Program. Although the Fish and Wildlife Program did not define a dedicated level of funding, the scope of the Biological Opinion indicated that \$5 - \$10 million per year was recommended. Last year this project was budgeted at \$4 million. Council staff estimates that for FY 2005, \$5 million in water transactions are likely.
- Subbasin Planning: A small amount of subbasin planning work will fall into FY 2005, between October 1 and December 31 of 2004. This work will include portions of the subbasin planning response tasks that will occur after ISRP review and comment, prior to Council adoption of subbasin plans. Staff estimates this work to cost approximately \$541,083 for the FY 2005 budget.
- BPA Program Support: Bonneville has requested increasing from \$11,500,000 in 2004 to \$11,800,000 for 2005. Bonneville staff will be prepared to discuss the elements of these program support costs at the June meeting.
- Data Management: Staff has identified several data management activities associated with subbasin plans submission and adoption that are needed for FY 2005. These include managing the data associated with the assessment portions of subbasin plans, and data associated with the plans themselves. It is proposed to manage these elements with three separate contracts, for a total of approximately \$440,000.

Another issue for the Committee to consider is project cost increases as previously mentioned. We have received many legitimate requests for budget increases. The sponsors are asking the Council to take into account the constraint that level funding for the past several years has imposed on projects. For example salary increases, healthcare cost increases, fuel and electric cost increases, and other needs have been identified by project sponsors. Project sponsors must address these needs by slowing down project-approved work to pay for them. The current budget

does not provide capacity to address these needs and we lack a consistent approach to equitably evaluate and approve short-term budget increases.

Finally, individual project reviews by the Council and Bonneville are needed in several instances. These are related to project scope and may effect project budgets as soon as FY 2005. Some of these projects were anticipated to be defined by step review submittals, but these were never received and the projects are either operating outside of scope or continue to plan and define their scope.