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August 3, 2004

To: Council Members

From: Doug Marker, John Ogan

Subject: Status report on developing a future fish and wildlife program funding agreement

We will present another report on the status of discussions for a new long term funding agreement for the Fish and Wildlife Program. Discussions in July continued in two workgroups; one using proposed subbasin plans to estimate potential costs for levels of program accomplishments, and the other on the scope of management and accounting issues for an agreement and specific options for adoption in an agreement.

At this point the Council staff need to brief Council members on the details of these discussions for policy guidance. We have asked Bonneville's staff to consult with their management for confirmation on the general scope and options for an agreement with the hope that as much detail is completed before the next rate case workshops begin this fall.

We are attaching two summaries of the latest activities. The first is a set of meeting notes from Patty O'Toole and John Shurts from the cost estimation workshop that was held last week in the Council offices. The second is an issue matrix being used to outline potential management and accounting issues and potential options to address them. Both reflect work in progress and should not be interpreted as final recommendations from the staff or guidance from the Council.

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Procedure	1996 MOA terms	Practice through 2001	Current procedure	Options for new MOA
Management issues				
Integration of Power Act and ESA requirements for BPA funding				Maintain integration for consistency of review and efficiency if implementation
Financial impact of new ESA measures and appropriations exceeding available funding	Identified two sources of additional financial impact: (a) measures required by ESA to address already listed species beyond the measures contemplated in the existing Biological Opinions and (b) Congressional appropriations to be reimbursed by Bonneville that would exceed the funding available in the applicable category. Provided that such events would be considered an unforeseen event subject to the provisions of Section IX(c) (providing for escalating consultation through OMB and CEQ) on how to provide for the financial consequences. Providing for the extra costs from unobligated direct program funds is a last resort.	No events occurred	Bonneville suggests that new requirements of current Bi-Op remand must come from current program commitment.	Structure integration to bear risk of new requirements (alternative): new Bi-Op requirements or listing cause re-opener

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Science review of BPA reimbursed capital and expense programs				Specify scientific review procedure with flexibility for timing of AFEP. Otherwise, make consistent between programs
Capital fund management plan				Depends on whether we manage a separate capital budget. If so, have a plan, but say how it should be reviewed and revised annually
Separation of interest in BPA program management: <ul style="list-style-type: none"> operational cost v. project funding; Influence of rate concerns from project management 				
Contingency fund				Manage annually as a budget component
Division of capital vs. expense				Don't distinguish. Treat budget as single line item allowing Bonneville flexibility to manage to financial requirements and best advantage.
4(h)10c credits				
Bonneville internal	Incorporated into budget			Fund from outside fish

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program support costs				and wildlife budget.
Accounting issues				
Reporting on expenditures	Annual and quarterly review of both obligations and accrual basis	Quarterly and year-end project level reporting of obligations; Annual report of accrual at program level (compared to \$100 million expense and \$27 million capital)	Reporting being developed on an accruals basis.	Improve detail to track from recommended budget to actual expenditure.
Accrual basis accounting	Used for independent audit and determining interest. MOA accounted for pre-'96 obligations as accruals during agreement term. Expenses incurred after 2001 would not accrue to the agreement.	Was used to calculate annual interest.		Reserve funds to pay for contracts as they are written (alternative) provide an project-level liability accounting (alternative) tie contracts to fiscal year
Obligations basis accounting	BPA to provide an obligations based accounting. When work to be performed is completed, unexpended funds are de-obligated and made available for other obligations.	Quarterly reviews tracked obligations and served as source for reallocating funds.		Preserve capacity for budget planning
Expenditure plan	Attached as Appendix A to agreement and was to be "starting point" to determine the actual amount of funding	Remained in place	Other categories do not have fixed budgets	If agreement incorporates capital repayment from past appropriations, exclude deferred plant-

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	available in each category.			in-service.
Actual expenditure	Defined for independent accounting and calculation of interest credits. For determining direct program available for obligation, the amount of funding obligated in that category shall be considered the actual expenditure for that category.			
Carry over and under	Defined as the “expenditure amount available” relative to the actual expenditure and added (carry over) or decremented from (carry under) from year to year. No limit defined		Program budget not to exceed a total of \$556 million for FYs 2003-2006, averaging \$139 million in expense. Fluctuation from year to year limited to plus or minus 10 percent.	Define capability to manage funds across years. Avoid a set limit so major, large scale projects can be scheduled.
Carry forward balance	Provided for calculation in each category of the cumulative total of previous carry over and carry under. This section provided “Any funds remaining in these accounts after close of Fiscal Year 2001 will non be re-programmed for any non-fish and wildlife use, but will remain available for expenditure for the benefit of fish and wildlife”.	Carry over in direct program functioned through MOA period. Dispute was the treatment of the balances at the close of 2001.	The unobligated balance at the close of 2001 did not carry forward to augment the new expense budget of \$139 million.	Focus on documentation of outstanding liabilities at close of agreement term and provision for extinguishing

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Interest credits and charges	Provided for specific interest on carry forward balance to be made available to program/	Interest calculated and committed to program	Does not occur.	
Adjustments to initial allocations	Added appropriate interest to annual budget	Interest was added along with identified unobligated balances.		
Carry forward balance of less than zero	Bonneville must specifically concur in writing to maintain a less-than-carry-forward balance			Provide defined circumstances to allow funding to be brought forward from future years.
Reallocation among categories	Required agreement of the Parties in consultation with the Council and Tribes. Parties “understand” that they and others may develop a more specific process for reallocation among categories.	No reallocations occurred. No process was developed.		
Expenditures plan for appropriated capital investments	Prohibited expenditures (unless directed by Congress) for capital expenditures at a rate that would cause Bonneville’s repayment obligations unless Bonneville specifically concurs with the additional expenditures in writing.	Capital appropriations fell behind expectation of the funding agreement	No provision	

Jenkins, Kris

From: Shurts, John
Sent: Monday, August 02, 2004 8:26 PM
To: Grover, Tony; 'Alison Anne Squier (E-mail)'; Dayley, Tom; Berg, Kerry; Weist, Karl; 'Allen, Mattie'; 'Amos First Raised'; AUSTIN, ROBERT J; 'Bagdovitz, Mark'; 'Banister, Kevin'; 'Barquin, Billy'; 'Cobell, Buzz'; 'Corum, Lee'; DELWICHE, GREGORY K; 'DuCharme, Lynn'; 'Gaar, Elizabeth'; 'Gephart, Laura'; 'Giese, Tom'; 'Herrig, Dan'; 'Hudson, Charles'; 'Iverson, Tom'; 'Joyce, Carol'; 'Klum, Tana'; 'Kutchins, Keith'; 'Lothrop, Rob'; 'Lumley, Paul'; Marker, Doug; MASLEN, WILLIAM C; Ogan, John; O'Toole, Patty; 'Palensky, John'; 'Samura, Tami'; 'Sando, Rod'; 'Sheets, Ed'; Shurts, John; 'Verner, Mary'; 'Walton, Rob'
Cc: Horton, Stacy; Hunt, Joann; Crow, Steve; Phillips, Kendra
Subject: MOA construct workgroup -- meeting notes: assumptions and tasks

To the entire MOA group --

Meeting and attendance details: A funding MOA workgroup (with the obsolete name the "Construct" group) gathered here at the Council offices last week, on July 27, meeting all day. Present were John Shurts, Patty O'Toole; Bob Austin, Tom Daley, Karl Weist, Alison Squier; Rob Lothrop, Mary Verner, Billy Barquin, Tom Iverson, Tom Giese, Lee Corum and Katharine Cheney, with Kerry Berg, Stacy Horton and Adele Merchant on the phone.

Patty O'Toole took notes at our meeting and wrote them up; with a few revisions and additions I transferred them to an e-mail message, shared them with the group and asked for comments. I got a few comments back, with improvements and additions, then revised the notes into what you all see here.

You will see that the notes for each topic or category below include certain tasks people were to take away from the meeting. When it was just a general everyone-needs-to-check-this assumption, I say so, but don't call it out specially as a task. But for more specific tasks, or those directed at just one or a few people, I do call those out distinctly as "Tasks." And there is one big task -- relating to estimating future levels of habitat work -- that needs everyone's attention.

Purpose of the meeting: To reiterate from what I sent out from before the meeting, the purpose was to take what we know of the current direct program and, especially, of the proposed subbasin plans and try to project, in a rough way, the level and pace of effort we might expect in each of the broad program categories over the next five years if the subbasin plans were implemented, as compared to the current level and pace. The rough projections we came up with rode on a number of assumptions that need to be checked, as explained below.

The workgroup exercise was not intended to try to determine what are the relative priorities of the work in each subbasin or between subbasins, or allocate the effort or funds between subbasins. And while projecting how the subbasin might change (or might not change) the current levels of program activity is a first step toward estimating the overall program funding needs for the next rate case and thus for the MOA, it is but the first step, and not the definitive step.

Program categories: We used a set of broad program categories to organize and think about all the work Bonneville funds directly as part of the integrated Council/ESA program. (How we ended up with these categories I've described in earlier e-mail messages.) There are various ways one could organize the work; this was as functional as any. The intent was to capture *all* the work Bonneville funds as part of the direct program. The categories as we started out (some modifications and lumping occurred as we went; *see* below):

Habitat: Improve passage and screening
 Improve water quantity

Protect and improve riparian and instream habitat
Protect and improve upland habitat

Artificial Production: On-going facilities -- o&m, m&e
Changes/reforms/new efforts -- new production initiatives, HGMPs, APRE

Program Support: Research
Programmatic m&e
Institutional Support
Planning/assessments

Harvest: Selective harvest
Predator control
(also, direct control of invasive/competitor fish species -- added at meeting)

Discussion of categories of work -- assumptions and tasks:

Habitat: We spent the biggest part of the day by far (including all the afternoon) on discussing what to do about the habitat work. It is obvious that the subbasin plans represent a potentially significant increase in the level of tributary habitat work, especially (but not only) strategies to protect and improve riparian and instream habitat on private lands.

Screening: While screening is important in some subbasin plans and not in others, it looks like the subbasin plans collectively do not indicate a change in level or pace for screening from current program. Also, we are capacity limited with the three screen shops, and no proposals to develop new screen shop capacity.

All other habitat work: Given how much is in the subbasin plans relative to the rest of the habitat work, it seemed both overwhelming and inappropriate for us to try to reach even some rough conclusions as to how the plans could check the nature and magnitude of the program's habitat work. We need the assistance of those subbasin planners who are also familiar with the current level of habitat work in their subbasins. So, we agreed on the following task, the most important of all we assigned ourselves:

Task (question for subbasin planners to estimate level of habitat work): The state subbasin planning coordinators (Karl, Tom, Tony, Alison, Kerry) are to turn to the planners in their subbasins and ask if they can provide us with a rough estimate as to how the level of habitat work that could result from their subbasin plans compares to the current level of habitat work in that subbasin. We are not asking for a detailed cost estimate, or any cost estimate, or an implementation plan. Instead we want a rough estimate about magnitude -- to implement the habitat work in the subbasin plan at a reasonable, achievable pace over the life of the plan (and assuming money will not be infinitely available, and so priority work would go first and others later), would that mean a level of habitat work comparable to the level that Bonneville currently funds in the subbasin? half again as much? twice as much? half as much? etc., etc. To state it another way, the logic path for this rough estimate looks like this:

- (1) What is the current level of habitat work in the subbasin funded through the program by Bonneville? (We can provide information on this if needed.)
- (2) Look at the habitat strategies in the proposed subbasin plan, and assume an attempt to implement them over the life of the plan, at a reasonable, achievable pace.
- (3) How would the level of habitat work resulting from the subbasin plan under that assumption compare to the current level of habitat work, as an order of magnitude?

We need to pull these estimates together during the month of August. We talked about how the state subbasin planning coordinators should go about obtaining these estimates from the subbasin planners. There were a few of us who preferred simply giving this task to the coordinators and a date certain for returning with the

estimates, and let them have at it. But the large majority of the group favored an "all-come" work session toward the end of August to which a few key subbasin planners from each subbasin would be invited to sit together in groups and produce these estimates. We will begin work to see if we can organize such a meeting; meanwhile, the state coordinators should begin communicating with their subbasin planners as to the nature of this request.

Artificial production:

Ongoing facilities -- o&m/m&e. Current level of funding estimated as part of program appraisal. Two ways in which it seems obvious this category needs to change or will change from the current program level: (1) Projects have been level-funded for too long -- needs an inflation factor of some sort. (2) As new production initiatives (see next) come on line, the o&m costs will add in to this category. **Task: Bob Austin/Bonneville is to look at the projected costs and timeframes for new production activities (see below); should include o&m estimates and timing, too.** Rob Lothrop suggested that program managers might see additional o&m needs besides these two categories -- he is going to check on that. John Shurts noted that the people involved in thinking about programmatic m&e hope to shift some of the region's efforts from project-level and project-site-specific m&e to population-level and others types of m&e. So it may be that m&e portion of this category might reduce over time, offset by increased spending on other m&e efforts. Hard to gauge or plan for right now.

New production initiatives. New production initiatives are in the review process, and may be coming on line in the next few years, including Chief Joseph Hatchery, NEOH, Walla Walla, Klickitat. Most of the costs in this category would be capital for construction, altho some planning costs may be expensed (and when they come on line would add to o&m/m&e expenses; *see above*). **Task: Bob Austin/Bonneville is going to look at the draft capital plan and consider realistic timeframe and associated costs for these new production initiatives, and share that information with others to review.**

Effects of artificial production reform (APRE, etc.). Artificial production reform may be a big deal in general, demanding many dollars in the next few years. but it was our judgment that the effects and needs for the production in *this program* would be minimal. People need to check that assumption. Lower Snake Comp Plan may require significant investments along these lines, but those are funded by Bonneville outside of the direct program. Need to make sure those costs and other costs to reform production facilities that are outside of the program, *if* they do come to Bonneville, are not funded out the direct program or at least do not impose costs on the direct program without matching additional funds to pay them. Also, is there a future to the Safety Net projects, which will impose costs on the direct program? Only if defined so by the feds out of the BiOp Group does not think so, but **Task: Bob Austin/Bonneville is to check and report back.**

Harvest:

Selective harvest. Current program is essentially Lake Roosevelt and a few odds and ends. Our assumption is that the scope and level of activity is unlikely to change. May need to add in an inflation factor. Some slight increase in program costs in this category may occur from plans for Lake Roosevelt/Lake Rufus Woods/Okanogan. **Task: Mary Verner and Alison Squier to check whether selective harvest plans for these areas would bring new costs to the program.**

Predator control. No significant increase anticipated for pike minnow or avian predation efforts compared to current program level, unless called for in new BiOp/ESA. Also, Bonneville is apparently paying for some pike minnow control work outside the direct program -- will this continue? **Task: Bob Austin is to check and return if his agency's assessment is different.**

Direct control of invasive/competitor fish species. Some plans include direct control to deal with the

negative effects of invasive/competitor species, such as bull trout/brook trout interaction. It is unclear if this could bring significant new costs to the program. We all need to check on this, but Alison Squier raised the issue and seemed most aware of potential, so **Task:** Alison Squier to check and report.

Program Support:

Planning/Assessments: The group assumed that the budget should contain some money for additional planning and, especially, assessment work that is greater than zero but less than the \$15 million dollars spent on subbasin planning. The sources of these needs will be (1) subbasin plans that identify data gaps in assessments that are critical; (2) completion of planning tasks in an iterative process; (3) some help in maintaining planning group infrastructure, for help in implementation and, especially, with expectation that plans will be updated; and (4) an assumption that ISRP review will identify some assessment and planning gaps, which will be converted into priority strategies as part of adoption process. Bob Austin and Rob Lothrop in turn expressed concern about taking much of the budget for additional planning work and planning infrastructure. **Tasks:** Subbasin planning coordinators to roughly estimate potential planning/assessment costs. Rob Lothrop to check with tribal program managers about need to balance planning with on-the-ground work.

Research/Programmatic m&e/Institutional support: Large majority of this work is in the mainstem/systemwide group of projects, and so not addressed by subbasin plans. Also, group assumed that, in general, program is not likely to call for or fund significant increases in these program areas in the next few years. There are a few exceptions or caveats to this general assumption, as follows:

(1) Much of the program work in these categories has been on level funding but experiencing rising costs, especially related to personnel; needs an inflation factor.

(2) The people working on programmatic m&e type of work see the need to invest in additional/reoriented/improved programmatic m&e work; this may be a requirement out of the new BiOp, too. There has been talk that this might be offset by reductions in project-level m&e -- this may be true, but the former seems more certain than the latter. Also, new reporting requirements resulting from adoption of modified PCSRF performance metrics and/or the new Bonneville reporting methodology might require an increase in programmatic m&e costs. **Task:** Bob Austin is fairly certain there will need to be a bump in programmatic m&e, especially identified in new BiOp. He is to check with others at Bonneville and return with some info. Others should check, too.

(3) Rob Lothrop noted that feds/others may soon recommend to PIT-tag fall chinook, and there could be significant costs associated with that change. **Task:** Bob Austin and Rob Lothrop are to check and report back.

(4) Alison Squier noted that most of the programmatic m&e and research focuses on anadromous fish, and that there are needs related to resident fish and wildlife. **Task:** Alison Squier to check to see if any solid plans or proposals and report back on potential.

(5) Subbasin plans may identify some research and programmatic m&e work above current levels, although group was not aware of any. **Tasks:** Subbasin planning coordinators to take a look to see.

Thanks to you all,

John Shurts