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July 5, 2005

MEMORANDUM

TO: Council Members

FROM: Patty O'toole and John Ogan

SUBJECT: Project Selection Design -- Fiscal Year 07-09

ACTION REQUESTED: The staff has been working with the Fish and Wildlife Committee on a proposal for the design of a project review and selection process to develop program funding recommendations for Fiscal Years 2007 through 2009. The staff would like to have the full Council confirm several key elements of that proposal and to provide any additional guidance it deems appropriate. Formal action is not requested. Rather, general acknowledgement that the concepts outlined below are appropriate will suffice.

Background

The staff has been working with the Fish and Wildlife Committee over the past few months on the design of a project selection process that will be used to develop the Council's recommendations to Bonneville for fish and wildlife program funding for Fiscal Years 2007 through 2009. The staff will continue to refine that proposal with the Committee, and in collaboration with others in the region. It is time, however, to seek the advice of the full Council on several key elements of the proposal.

If the Council confirms the elements presented below, those elements, along with any guidance provided, will be used as the basis for a more detailed project selection process guidance document. That guidance document will accompany a letter soliciting project proposals for FY 07-09 funding, and explain the design and conduct of the project selection process. The Council will be asked to review and confirm that guidance document in August and September.

Project Review Process Elements:

The staff and Committee have been working on a project review process for several months. The review process is designed around or is based on several key elements, which the staff would like the full Council to understand and confirm. At this point, the following elements require consideration:

- **Initiate a Review the Entire Program** The Council will do a full program project selection process to make funding recommendations to Bonneville for FY 07 and beyond. All projects submit proposal as per guidance; ISRP review of all projects; new Council recommendations for all projects.
- **Multi-Year Recommendations** The norm will be Council recommendations that cover FY 07 through 09. However, the Council can retain option of recommending funding for some for either a shorter or longer period of time projects or categories of projects if information developed in the public funding process suggests this is more appropriate.
- **Bifurcate the Review of the Program** The project selection process will be organized by “compartment” -- the two largest compartments are defined as “Systemwide” and “Province”. Projects that are principally related to implementing subbasin plans will be considered in the Province compartment. Projects or activities with a scope or purpose transcending any particular subbasin will be organized under the Systemwide compartment (See Diagram).
 - We suggest a single solicitation for all proposals at once, but a staggered review and decision process that is completed over approximately 18 months. The reviews and decision process may be divided by province or by “compartment” or combination of compartments.
 - Staff and others are still evaluating the degree of compartment break-out for review and decision-making.
- **Use Bonneville’s PFR Funding Figures** Bonneville has reported that it will structure its rate proposal for the period commencing with FY 07 to accommodate \$143 million/year in expense spending for Program implementation. This will be the figure to work from to develop allocations between the Systemwide and Provincial compartments.

We will break the allocation on the Provincial review side into allocations for each province. Allocations will *not* be made at the subbasin scale. Decisions on distribution of the province allocation among subbasins would be made locally, with the Council available to assist in resolving any disputes that may arise.

Bonneville will make an annual average of \$36 million/year in capital spending available. Access to this will be determined by a capital work plan. Capital would *not* be allocated across the provinces in the same manner as the expense fund. Rather, the new and ongoing proposals that indicate that they should be funded with capital funds for FY 07 and beyond will be collectively evaluated to develop a prioritized regional capital plan.

- **Developing a Planning Target Funding Figure** Bonneville's \$143/year figure is an *actual spending* figure. History demonstrates that spending lags behind recommendations in this Program during the current rate period, Fish and Wildlife program actual spending has lagged behind the planned budget each year, and has averaged less than \$139 million per year to date. The average differential between the budget planning figure and the spending amount from FY 2002 - FY 2005 is around 8%. Adjusting the spending target of \$143 million up to account for this differential would result in a planning budget of \$154-155. It will be important to monitor this pattern as implementation of the Program continues to see if the pattern begins to change. If it does, adjustments to the planning target can be made at that time. The staff proposes to work with Bonneville and others to establish an appropriate planning figure that would be *greater than* the \$143 million actual spending figure.
- **Bonneville's Proposed 70/25/5 Distribution of Funding** Bonneville seeks to dedicate 70% of the expense budget to "on-the-ground" actions; no more than 25% to research and monitoring and evaluation activities; and no more than 5% to Information management and coordination. The staff proposed to more specifically define what is considered "on-the-ground"; M&E, and information and coordination. Assuming that we agree with Bonneville on these definitions, we would use this distribution as the first layer of allocation for project review process.

The 70% would be dedicated to the Province side of the review process and the 25% and 5% portions are would be dedicated to compartments on the Systemwide side of the process. The 70% allocation for "on-the-ground" work would be shielded from encroachment from anything on the Systemwide side of the review process.

- **Province-by-Province Allocations** The allocation across the provinces will again be based on historical recommended spending.
 - The first table below captures historical spending (by % of the annual fund) in the Program. These percentages were used to make allocations for the first provincial review. These percentages are based on spending through Fiscal Year 2000. In determining those percent allocations, Council staff removed large one-time expenses (large capital projects or land acquisitions), which would have given a province an artificial increase over its historic allocation. It should be noted that in the course of the provincial review process, additional funding was directed to the lower Columbia River/Estuary allocation to allow for increases for the 2000 Biological Opinion and RPAs.

Province or group	Percent allocation from 2001
Blue Mountain	7.3
Columbia Cascade	0.6
Columbia Gorge	3.5
Columbia Plateau	27.3
Intermountain	6.3
Lower Columbia/Est.	4.5
Mainstem/systemwide	27.9
Middle Snake	1.7
Mountain Columbia	4.7
Mountain Snake	15.3
Upper Snake	0.9

In the table below, example provincial allocations are then calculated using \$87.4 million (70% “on the ground”) of \$143 million, minus \$5 million for the water/land brokerage (assumes these stay at the same levels as current). *Two additional adjustments are also made* (explained in the bullets under the table):

Province or group	Percent allocation from 2001	Revised Allocation	Calculated allocation @ \$87.4 million
Mainstem/systemwide*	27.9	6.4	\$5,584,574
Blue Mountain	7.3	8.8	\$7,676,707
Columbia Cascade*	0.6	6.5	\$5,679,228
Columbia Gorge	3.5	4.2	\$3,680,613
Columbia Plateau	27.3	32.8	\$28,708,780
Intermountain	6.3	7.6	\$6,625,103
Lower Columbia/Est.*	4.5	6.5	\$5,678,754
Middle Snake	1.7	2.0	\$1,787,726
Mountain Columbia	4.7	5.7	\$4,942,537
Mountain Snake	15.3	18.4	\$16,089,536
Upper Snake	0.9	1.1	\$946,443

- Adjusting for Bifurcation and 70/25/5: Because we intend to bifurcate the program into “Systemwide” and “Province” elements, and apply the 70/25/5 distribution, we to adjust the basic historic allocation in the table above. The first (*) indicates that *systemwide* projects have been moved to the “Systemwide” compartment for review on that side of the process. Importantly, those systemwide projects are not funded out of the 70% “on the ground” portion of the fund. Note that we have reserved an estimate of *mainstem* work as part of “on the ground” work to be funded on the province side of the review. Reducing the

historic allocation for “mainstem/systemwide” increases the allocation percentages for all of the other provinces, as more of the \$87.4 million is dedicated to the other provinces.

- Adjusting for ESA Emphasis: The above table also reflects a second adjustment from the historic allocation. The next two (*) indicate increases proposed for the Columbia Cascade and Estuary provinces in response to ESA needs. The amount of increase is the staff’s best judgment based on actual program requirements that materialized during the first province review and on an ad hoc basis thereafter.

These are not proposed as the final province-by-province allocations. What we do want to emphasize for the Council, and have it confirm is not the numbers, but rather, the principle for allocation -- that is, that the allocations for the provinces will be based on historic recommended funding with adjustments for new program design and ESA emphasis. You note that the tables above use figures recommended for FY 2001 in the first provincial review. Those relied on funding data through FY 2000. At the time of writing, the staff is reviewing other years as the base year for developing historic allocation percentages. For example, using Fiscal Year 2004 as the base year for determining allocation has some merit because it represents the culmination of decisions made in the first provincial review; using Fiscal Years 2005 or 2006 may provide results that take into account even more recent decisions. Choosing the correct base year is important -- we use 2001 in this memo because it was actually used in the first provincial review, and thus, has some measure of familiarity and acceptance. We do want the Council and public to understand, however, that ***some early analysis using other base years is yielding some significant differences in province allocations.***

The staff must also do more analysis with Bonneville and others on definitions for categories and compartments (e.g. what really is “on the ground”; what m&e elements must be funded in the Systemwide portion and which may remain imbedded in projects on the Province side, etc). This work needs to begin immediately and should the Council confirm the approach we set out here. That work on definitions may also yield a more precise allocation. That might be the product of looking at the project proposals for habitat and production projects recommended during the last rolling provincial review, and systematically dissecting m&e and other out of the project totals. This would give a clear idea as to what historical allocation has been for only habitat and production projects in each province. This is another element (in addition to the base year issue) that could possibly alter the allocations set out in the table above.

The staff intends to do more work to ensure it has used the best bases for a historic allocation and to develop common definitions in the very near future. That said, this table is key, as it demonstrates the result of historic province allocation + a program split into “Systemwide” and “Province” compartments + 70/20/5 split of \$143/annual expense+two ESA based adjustments. We also note that we will need to implement the review process with a constant eye towards maintaining the Program’s 70/15/15 split among anadromous, resident fish, and wildlife projects, respectively.

- **Local Review and Prioritization** After receipt of the ISRP review reports, and with subbasin plans and guidance provided by the Council (discussed next bullet below) the initial prioritization of projects within available budget will be made by local groups. Fish and wildlife management entities with management jurisdiction need to be included, and their advice on the overall recommendation package from the groups to the Council will be given due weight. Council members will need to take the lead in organizing the process for local group project review and prioritization. These groups will make recommendations to the Council, and the Council will make final funding recommendations to Bonneville as required by the Act.
- **Organizing Sub-Compartments on the Province Side** While we do not propose assigning finer levels of funding to the compartments, the staff would like to continue to consider how this review process may be used to better integrate and evaluate certain types of projects, and make for a more efficient review process. For example, O&M costs for lands acquired and artificial production facilities are significant, and they vary across the program. It may be useful to ask the ISRP, and/or perhaps some fish and wildlife manager teams and others to look at specific categories/compartments of projects such as these to see if it is possible to develop a set of standards or best practices. Advice received could possibly be used when the Council makes its funding recommendations, or in future project review processes.

Next Steps for Completing the Project Review Process Design:

Taking into account the Council's input on the above, we will schedule the ISRP reviews, and begin to develop a guidance document, solicitation letter, and proposal form. That guidance document will accompany the solicitation letter and:

- Define the "Systemwide" and "Provincial" compartments and sub-compartments-- (e.g. will define what monitoring and evaluation activities are appropriately considered as part of an "on the ground" proposal in a province, as opposed to regional monitoring and evaluation that is within the Systemwide portion of the review);
- State the allocations for each province and explain the basis for the allocations;
- Establish the steps, schedule, and sequence for the review and recommendation process;
- Set forth the decision making process and standards for proposals (e.g. it will make clear that projects in the Provincial portion need to be tied directly to subbasin plans; explain who will organize and facilitate the Systemwide review, etc);
- Explain what is expected in the proposal form;
- Other-- as per Council instruction.

The guidance document will tie together the who, what, where, when details of the project review process. Therefore, the Council's final approval of the staff proposal for the project review process comes when it endorses that document and the solicitation letter. We expect to be reviewing these with the Committee and Council in August and September, and starting the review process as soon as approval of those is secured.

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