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March 30, 2006

## MEMORANDUM

**TO:** Council members

**FROM:** Patty O'Toole, Program Implementation Manager

**SUBJECT:** Discussion of the FY 2007-2009 project selection process

At the April Council meeting staff will continue its monthly updates to the Committee regarding the FY 2007-2009 Project Selection Process. Staff will 1) remind the Council of the current proposal review schedule, and 2) review the concept and content of the draft issue memo.

### 1. Current Schedule for proposal review and project selection

- October 20, 2005: Request for proposals
- January 10, 2006: Deadline for proposals
- **January 17 - June 16, 2006: Science review and local and basinwide prioritization**
- June 1, 2006: Preliminary science review report and mid June: local provincial priorities to the Council
- July 14, 2006: Responses for prioritized projects in the "fix it loop" are due
- August 31, 2006: Final science review report to the Council
- October 18, 2006: Council recommendations for funding to Bonneville

### 2. Rolling issue memo

Attached to this cover memo is the current draft of the rolling issue memo. We would like to spend some time discussing how the rolling issue memo will help the Council manage and resolve programmatic and project specific issues. The goal is to update and revise the memo each month as issues are raised, discussed and resolved with the ultimate target being the final decision memo in October that will transmit the Council/s final work plan and budget to Bonneville for funding.

Several programmatic issues are described in the current version of the issue paper. The Fish and Wildlife Committee is deliberately working their way through the issues. The Committee has prepared recommendations for the Council to consider on two of these issues. The first is

issue 1: Bonneville's funding commitment during the 2007-2009 rate period; Council allocation target and principles. This is basically background information provided to set the stage for upcoming discussions. The second issue is issue 3: The integration of off-site mitigation requirements of FCRPS biological opinions. We propose to review the Committee recommendations with the Council in April.

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March 30, 2006

## MEMORANDUM

**TO:** Council Members

**FROM:** Staff

**SUBJECT:** Fiscal Year 2007 through 2009 Fish and Wildlife Project Review and Recommendations -- **"Rolling Issue Memo" Version 3**

### Background

The Northwest Power Act directs the Council to make recommendations to Bonneville for funding fish and wildlife projects. The Council has approved a project review and selection process that will yield funding recommendations for project funding for Fiscal Years 2007 through 2009 in October this year.

As the Council leads the region through this process, numerous issues will develop that require public notice, consideration, and resolution. This document is the first iteration of the "rolling issue memo" that will be used to identify and provide public notice of issues that bear upon the Council's funding recommendations. The memo is "rolling" because as the project selection process moves forward over time, the both the resolution currently identified issues will be "rolled" into and preserved in the document, and newly emerging issues will be "rolled" into the document and positioned for resolution. At the end of the project selection process, this rolling issue memo will become the Council's decision document that it will forward to Bonneville, including its project funding recommendations along with a record of the related issues considered throughout the process and their disposition.

All who are interested in the Council's project funding recommendation process need to appreciate the critical role that this rolling issue memo will play. This document is the vehicle to provide notice of the issues that the Council staff believes influence the Council's final project funding recommendations. Likewise, this document will include the Council staff proposals for Council treatment or resolution of those issues. When those participating or having an interest in this process share a perspective or opinion on the issues in the memo, those need to be communicated to Council staff through the Fish and Wildlife Division Director, Doug Marker so that they can be included in the memo for Council consideration and public notice.

While this rolling memo will play a critical role in issue identification, development, and resolution, it must be made clear that there is a limit to the subject matter that can be developed in this way. The Council will not establish or amend significant fish and wildlife policy in this process -- those significant policy issues, that are at or close to the core of the adopted Fish and Wildlife Program -- must be addressed in a formal Fish and Wildlife Program amendment process. For example, later in this document the distribution of the Bonneville fund among anadromous fish, wildlife, and resident fish (the “70/15/15” rule) is explained for context to help interested parties understand the province funding targets approved by the Council. It is possible that an interested party may believe that a different distribution policy would be favorable, or that this one be completely eliminated. However, because this “70/15/15” distribution policy is specifically called for in the adopted Fish and Wildlife Program, and could not be altered or eliminated by the Council in this project selection process. The most the Council could do is to explore alternative ways to achieve the “70/15/15” policy. Again, this is only an example.

In summary, this rolling memo plays a key role in focusing the Council and interested parties on important issues and Council decisions relating to project funding recommendations for Fiscal Years 2007 through 2009. Suggestions to add to the suite of issues presented herein, and comment on issues presented need to be routed through the Council staff so that they can be included in the next iteration of the issue memo. As issues become ripe for Council resolution over the next several months, the staff will make recommendations to the Council and it will make decisions. This will help keep the number of decisions made at the end of the process more manageable and focused on the actual project funding recommendations.

## **I. Schedule**

On October 21, 2005, the Council and Bonneville issued a solicitation for project proposals to implement the Columbia Basin Fish and Wildlife Program. Proposals were submitted through January 10, 2006. The proposals are being reviewed by the Council’s Independent Scientific Review Panel (ISRP report due no later than June 16<sup>th</sup>) and prioritized by provincial work groups and a basinwide work group convened by Council staff. The Council will consider the ISRP report and the recommendations received by the local groups. Some proposals will be asked to respond to issues raised by the ISRP and the report for this second review will be provided to the Council by August 31<sup>st</sup>. The Council will make funding recommendations at its October meeting.

## **II. Programmatic Issues**

*A “programmatic issue” transcends a single project or proposal -- it bears upon how the Council understands and implements its project review and recommendation process and/or it colors its funding recommendations broadly for all projects or a significant set of projects.*

### **1. Bonneville’s funding commitment during the 2007-2009 rate period; Council allocation targets and principles.**

Last fall Bonneville and the Council agreed that it would use an annual average planning budget of \$153 million for Fiscal Years 2007 through 2009. In addition to that “expense” funding, Bonneville will also make available \$36 million in funds borrowed from the U.S. Treasury. This

latter amount often referred to as “capital” funding, is subject to particular rules and standards prescribed by Bonneville in its “Capital Funding Policy for Fish and Wildlife Projects”.

In order to ensure the ability for all areas of the Columbia Basin to participate, planning target allocations have been established for each Province. Similarly, for research, monitoring and evaluation, and coordination activities that are not linked to a particular province, a “basinwide” planning target was established. The allocations for each Province were based on historical Council recommendations and start from the average of the Council recommendations for Fiscal Years 2004 through 2006. That is, the Council surveyed how it, along with Bonneville, fish and wildlife managers, and others have traditionally committed funding under the Program. These patterns are the legacy of management emphasis and legal and policy considerations, and are not to be considered perfect or those that will be used in future years.

The Council’s 2000 Program carries forward the goal of ensuring that Bonneville funds are committed to all three of these Program areas. The Council made adjustments to the historical recommendations based allocation to reflect the 70/15/15 distribution. The Council notes that while in recent years the resident fish distribution has come close to 15% of the program, it appears that it is the wildlife component that has lagged behind. Therefore, where both resident fish and wildlife projects occur, the Council’s intent is to have both of these program areas approach their 15% allocation goal.

Bonneville articulated a goal in its Power Function Review of committing at least 70% of its annual fish and wildlife funding to “on the ground work”, and no more than 25% to research and monitoring and evaluation activities, and 5% to coordination actions. The Council considered these goals but decided **not** to use these targets to allocate funding for Fiscal Years 2007 through 2009. Nonetheless, the Council and Bonneville will work together in this project selection process, and into the future, to focus resources on activities that provide direct benefits to fish and wildlife while maintaining an efficient accountability framework of monitoring and evaluation, research directed at key priorities, and to streamline necessary coordination.

**Preliminary Staff Recommendations:** Most of this issue and description is provided primarily as background, and no near-term Council action is required. The staff notes that it would be helpful if Bonneville can work as quickly as possible to review the proposals that were submitted and identify those that may be eligible for capital funding. This would be important information for the local groups as they work to prioritize the expense targets allocations. As the project selection process moves forward over the next several months, if there are issues that develop with regard to the province allocations they will be identified here and brought to the Committee and Council for discussion.

**Comment received:** Bonneville provided comments (3/3/06 letter) that suggest that we keep two factors in mind. That funding capital projects often commits out-year funding for operations and maintenance and that this needs to be evaluated as a priority relative to other possible uses for that funding. Also, that capital funds must be repaid with interest so that capital project actually cost more in the long run, than expense projects.

**Staff recommendations:** No change from preliminary recommendations.

**Committee Recommendation:** The Committee accepted the staff recommendations. The Committee understands that Bonneville is reviewing the proposals to determine which are eligible for capital funding, and that this review will be completed very soon. The Committee recommends to the Council that it direct staff to review Bonneville's determinations, work to reach an agreement on those designations, and if there are disagreements or other budget or funding allocation issues that emerge as this process moves forward, return those to the Committee.

## **2. Ensuring projects recommended respond to BPA/FCRPS obligations without "in lieu" funding problems.**

Bonneville has a legal obligation to protect, mitigate, and enhance fish and wildlife impacted by hydrosystem development and operation. This is Bonneville's "responsibility." To meet that duty, Bonneville has the *authority* to fund on-site protection and mitigation actions as well as offsite habitat and production actions--that offsite work now catalogued in subbasin plans.

As the Council stated in its public letter resolving broader process issues in the subbasin planning process, as long as an offsite mitigation project proposal funded by Bonneville addresses a species identified as adversely affected by the hydrosystem, that action is potentially within the authority of Bonneville to fund as part of its effort to satisfy its Power Act mitigation obligation -- in doing so, Bonneville is responding to its legal *responsibility* to protect, mitigate, and enhance fish and wildlife. The possible exceptions are those cases where Bonneville funding for a project replaces funding of another entity that is required or in place. The Act precludes Bonneville from funding this work "in lieu" of funding provided by another responsible party.

**Preliminary Staff Recommendations:** Determining which project proposals may run afoul of the Act's in lieu funding prohibition has always been done by Bonneville. It would be extremely helpful to both the Council and the local groups developing project funding prioritization recommendations if Bonneville would quickly review the proposals and provide notice to the Council of the particular proposals that may present an in lieu funding problem. The staff suggests a date of March 6<sup>th</sup> for notice of which (if any) proposals may have in lieu funding issues.

**Comment received:** Bonneville noted in their response that they would provide the results of their review of proposals for in lieu concerns in April, not in March as the previous draft of the memo suggested.

**Staff recommendations:** No immediate change in the staff recommendations. As the result of Bonneville's proposal review will be available in early April instead of March, this issue may need to be re-visited at a later date.

## **3. Integration of off-site mitigation requirements of FCRPS Biological Opinions**

In past project selection processes the Council has sought to deliver recommendations to Bonneville that satisfied its ESA-based objectives balanced with its broader Northwest Power Act obligation to protect, mitigate and enhance any fish and wildlife affected by the

hydrosystem. A consistent message from the Council has been that Bonneville needs to make its ESA-based requirements known as early in the project selection process as possible so that those could be considered as part of the overall and broader fish and wildlife project recommendation package the Council develops.

Further, the Council has consistently stated that BPA's ESA-based actions need to be held to the same level of scientific, public, and Council review as all other fish and wildlife actions funded by Bonneville, and that the best way to ensure this is to develop any specific ESA-based actions as part of the general project selection process. The Council believes that it has been very successful in delivering the ESA-based projects sought by Bonneville in its project selection and within-year funding processes (the RPAs from the 2000 BiOP primarily).

The current project selection process began with substantial uncertainty attending Bonneville's ESA-based needs. The 2000 and 2004 Biological Opinions and the Action Agency Updated Proposed Action had been declared not legally sufficient by the Federal Court. Just as the Council and Bonneville released the call for proposals to be funded by Bonneville in this next cycle, Bonneville and the other Action Agencies were ramping up their work to respond to the Court's rulings, which may include securing needed survival improvements from off-site actions. The staff understands that the Action Agencies and NOAA seek to have a draft FCRPS Biological Opinion completed around June 1, and a final in October. It is unclear to staff when in the course of that work off-site actions (habitat, hatchery, etc) if any, may be identified as part of the Agencies' proposed action or the NOAA draft Biological Opinion.

**Preliminary Staff Recommendations:** The staff recommends that the Council adhere to its consistent position that Bonneville's ESA-based off-site mitigation projects be developed, as much as possible, within the general project selection process. Again, the benefits are substantial -- scientific rigor, public notice and comment, and budget scrutiny are products of this process. Moreover, once a project proposal is selected in this process, it will have secured scientific and public support, have a specific entity assigned to do the work and an implementation budget associated with it -- a strong case that the action is "reasonably certain to occur" can be made. In that light, the staff recommends that the Council continue to advise Bonneville and others working on the FCRPS Biological Opinion and Proposed Action that there are over 500 proposals that were submitted on January 10<sup>th</sup> that are candidates for consideration of any off-site mitigation element that may be part of the those ESA products being developed. These proposals are being reviewed by the ISRP and also local groups familiar with subbasin plans, and in many cases, recovery plans that have been built upon subbasin plans.

It is possible that Bonneville may make its best efforts to utilize the project selection process for meeting any off-site ESA requirements that are developed, but that there remain "gaps" that it believes it needs to address. Should this become a reality, the staff recommends that the Council ask Bonneville to fully coordinate its response to filling those gaps with the Council, and that any additional or modified process for filling "gaps" be designed to have the same high standards for scientific review and public review that attends the Council's general project selection process.

**Comment received:** Bonneville's response indicated general support for the staff recommendation of integrating Fish and Wildlife Program and ESA needs, but expressed some concern about province allocations: "We do have some concern that the existing province

funding allocations may complicate priorities derived from subbasin plan assessments and the review and prioritization process currently underway. It will be important for NPCC and BPA to consider the impact and limitations of these allocations as the review of project proposals proceeds”.

**Staff recommendations:** No change from preliminary recommendations.

**Committee Recommendation:** The Committee accepted the staff recommendation. The Committee recommends to the Council that it and its staff continue to encourage Bonneville to make any specific ESA-based needs known as early as possible. Further, the Council and its staff should continue to coordinate with Bonneville, NOAA and others in all fora, to make those agencies aware of the schedule and process underway for choosing Bonneville funded fish and wildlife projects to be implemented in FY 07-09. Finally, the Committee recommends that the Council continue to advise Bonneville that should specific ESA-based required activities are not addressed by the proposals under review or that are ultimately recommended for funding by the Council -- if there are “gaps” -- that Bonneville work with the Council to establish the means of funding and the process for filling “gaps.”

#### **4. Transition to integrated regional monitoring and evaluation framework**

The Fish and Wildlife Program calls for a monitoring program to evaluate whether the individual actions in the subbasins are achieving the objectives of the program stated at the basin and province level. In making its project funding recommendations, the Council seeks to prioritize monitoring activities and methods to evaluate the effectiveness of Program activities and trends in fish and wildlife populations and habitat conditions.

When it approved guidance for the 2007-2009 project selection process, the Council recognized that regional parties have collaborated to define common protocols for monitoring watershed conditions, population trends and the effectiveness of Program measures. The promise of this collaboration is that the information from individual projects and subbasins can “roll up” to broader geographic scales for evaluation of the success of the Program in meeting its objectives.

While this collaborative effort continues, the Council is ready to confirm the priorities for funding monitoring within each of the “H’s” that affect salmon and steelhead survival as well as resident fish and wildlife response to Program measures. In the 2007-2009 recommendations, the Council can define expectations for the function that specific projects should perform in support of regional evaluation. The Council can also define which monitoring methods it will prioritize for Program funding and plan for a transition for currently funded methods over a specific period of time.

**Preliminary staff recommendation:** This recommendation is organized by the components of monitoring needed for Program evaluation. These components relate to each other to provide information on the overall status of fish and wildlife populations in response to Program measures.

**1. Hydrosystem survival:** The Council will confirm with NOAA Fisheries, the federal action agencies, and the region’s fish and wildlife managers that the design and methods of



smolt and adult passage monitoring meets current management needs for guiding river operations annually and evaluating trends in passage survival. The staff has asked Bonneville to review these functions for meeting the requirements of the current Biological Opinion. The Council will determine that the data from passage monitoring is collected and made available consistent with the Program.

**2. Habitat:** The Council is developing priorities for the collection of data to evaluate changes in watershed conditions relative to the assessments used for the first set of subbasin plans. Because much of that data comes from other funding agencies, the Council will set priorities for collecting such data regionally and to support confirmation of monitoring protocols for regional consistency. The Council is also prioritizing limited research focused on fish habitat project effectiveness.

**2a. Watershed condition data funded through the Program:** Where projects are prioritized to collect data that indicate the condition of habitat for fish and wildlife, the Council recommends that such data be focused first on the priority indicators needed to inform future subbasin planning. For discussion purposes in this memo, those indicators are: water temperature, flow, passage, benthic macro-invertebrate assemblages, large woody debris, sedimentation, dissolved oxygen, nutrients, and stream morphology.

The Council intends to prioritize funding away from project tasks that collect data on other indicators, or that serve only to inform evaluation of the individual project without specific justification. This transition should be accomplished within three years or the next call for project recommendations.

**2b. Aquatic habitat project effectiveness:** The Council in its guidance for the 2007-2009 solicitation stated that monitoring for individual habitat projects should be limited to five percent of the project costs. The staff recommends that the strategy to obtain more information on the effectiveness of habitat restoration on fish survival be to prioritize three “intensively monitored watersheds” experiments. These are planned being developed in the Wenatchee, John Day and Salmon River subbasins and were initiated during the last Mainstem/Systemwide process. With PNAMP’s ongoing coordination, these three projects are linked to similar work on the Pacific Coast funded through other sources. In confirming future funding for these experiments, the Council should consider the strength of these experiments in being able to demonstrate that discrete habitat actions result in measurable change in fish survival.

**3. Population status and trends:** The Program currently funds a wide array of population monitoring which supports both management and ESA delisting analysis. Other work in the basin is funded from other sources such as license fee revenue and other mitigation programs.

For anadromous fish population monitoring proposed for funding in the Program, the Council expects the methods to be consistent with the randomly distributed sampling designs endorsed by the ISRP in its 2005 retrospective report. Prioritized proposals using other sampling designs should provide a transition plan as part of Bonneville contracting.

The appropriate distribution of monitoring sites for abundance, productivity and diversity needs more discussion as part of ESA recovery planning. Distribution may also be determined by the adoption of provincial objectives into the Council Program, currently planned for 2007. Pending those determinations, the Council staff proposes to complete a rough inventory of the distribution of monitoring in the currently funded program. When coverage to support ESA delisting requirements and provincial objectives is determined, the Council will plan a transition to support the prioritized distribution.

Where population monitoring for resident fish is prioritized for funding through the Program, the appropriateness of methods will continued to be reviewed by the ISRP. The staff does not propose a standard protocol at this time.

For wildlife population monitoring, the ISRP has continued to urge the Council to prioritize census monitoring to measure the response of target populations to acquisition and management of habitat. Currently, the Program calls for monitoring habitat value using the Habitat Evaluation Procedure (HEP) methodology. Periodic surveys of the quality of habitat protected by the Program are efficient and will be prioritized in the Mainstem/Systemwide Review. More directly counting estimating the changes in target wildlife species population and determining the specific influence resulting from habitat acquisitions is likely to be more expensive and will require the development of landscape level population estimates. The staff recommends continuing to use the HEP methodology as an accounting mechanism for tracking Bonneville's obligations for wildlife mitigation in the Program but will continue to review alternative procedures for monitoring population responses as proposed by the ISRP.

**4. Hatchery monitoring:** The Program funds significant activities related to hatchery performance. There are two issues for Council guidance in the 2007-2009 project selection process: linking the Program's supplementation effectiveness monitoring into a more integrated regional experiment, and the level of funding for monitoring of hatchery performance against project objectives and effects on naturally spawning populations. The Council also continues to collaborate on regional hatchery review and reform processes.

**4a. *Prioritize Designate the design of an integrated supplementation experiment as a priority action:*** The monitoring designs for each of the Program's supplementation projects have received ISRP review for design and outcomes. The ISRP is reviewing each project's design again this year. However, both the ISRP and ISAB have urged that the monitoring of projects be linked together so that the results from one project might serve the needs of others and diminish the need for each project's design. For example, the control stream used for one project might serve others with similar applications of supplementation techniques. The staff recommends that the Council prioritize development of an integrated regional design for completion and scientific review in 2007.

**4b. *Hatchery performance monitoring:*** For 2007-2009, the staff recommends funding that the ISRP review determines is appropriate, subject to budget capacity. with ISRP review of the appropriateness of each hatchery's performance monitoring in 2007-2009 The Council staff and Bonneville should determine that the data from each project's monitoring is being reported to the region consistent with the Program's standards for timeliness and accompanying metadata.

**5. Estuary habitat status and trend monitoring:** As called for in the Program, the ecological status of the Columbia River estuary and plume has been treated as a planning unit in subbasin planning and project selection. The 2000 and 2004 Biological Opinions also assigned responsibility to the federal action agencies for monitoring of the estuary. Although there have been several successful estuary research projects, the design of a pilot estuary monitoring project has not been successful in independent scientific review. Proposals have been made for 2007-2009 and are being reviewed by the ISRP. Monitoring the conditions of the estuary involves a number of other funding partners so the staff will focus on the appropriate role for Bonneville funding in the 2007-2009 project selection process.

**6. Ocean harvest monitoring:** Program funding supports monitoring of harvest in the ocean through at least two methods: directly through funding of coded wire tag programs and indirectly through dam counts. The staff recommends addressing the adequacy of information and appropriate share of Bonneville funding in the Mainstem/Systemwide project review.

**7. Data management:** Collecting the data from each of these monitoring components requires specific commitment for delivery to regionally accessible sources. The Council has a memorandum of agreement with other regional parties to confirm a work plan for a web-accessible data portal. The Mainstem/Systemwide project review will prioritize funding for a request for support of the portal with other funding partners. The review will also address the necessary scope and functions of the Streamnet project that is the primary collector and maintainer of data from Program-funded projects. The staff recommends working with sponsors and Bonneville project managers to determine if proposed ongoing projects deliver their data to regional sources consistent with the Program. The staff recommends that meeting this standard become a condition of future contracting and verified by Bonneville project managers as part of project performance review.

**8. Basinwide and province performance evaluation:** The Program calls for adopting province-scale objectives which will serve as benchmarks to assess how individual actions in subbasins are adding up at broader scales. The Council plans to open the Program for proposed amendments to adopt provincial objectives this year.

Performance against these objectives will guide future funding allocations and management emphasis. From the data collected from the monitoring components listed above, the staff recommends that monitoring of performance against provincial objectives use specific “high level indicators” and for discussion in this draft, those indicators be:

- Fish survival or productivity indicators
- Spatial distribution
- Annual population growth rates
- Ocean productivity indices
- Hatchery releases and return rates
- Habitat conditions, summarized from the watershed condition indicators
- Harvest rates

- Adult and juvenile passage survival through the mainstem dams

**9. Reporting:** The staff recommends prioritizing the production of an annual report that summarizes the data from the high level indicators proposed above. The Columbia Basin Fish and Wildlife Authority is funded to produce an initial summary report for 2006. The staff expects the content to evolve as provincial objectives are adopted into the Program and specific indicators are confirmed. In the meantime, the staff recommends that the Council review and approve the content for the initial report funded for 2006. CBFWA is presenting an initial content proposal to the Council's Fish and Wildlife Committee at its March meeting.

The staff also recommends prioritizing funding for an on-line peer-reviewed journal for Program-funded research a priority. Specific proposals or an appropriate placeholder for an RFP for such a journal will be reviewed in the Mainstem/Systemwide proposal review.

**Comment received:** The Committee discussed the tasks proposed by the staff to apply this guidance in developing project funding recommendations. Committee members asked for regular status reports and the names of the staff working on each task.

**Staff Recommendation:** Reaffirm the preliminary staff recommendation.

## **5. Assumptions for use of Bonneville's capital borrowing authority to finance certain recommended proposals**

For Fiscal Years 2007 through 2009, Bonneville has stated that it will make available up to \$36 million for "capital" investments. Bonneville has also stated that use of these funds is subject to particular rules and standards prescribed by Bonneville in its "Capital Funding Policy for Fish and Wildlife Projects."

The Council has differed with Bonneville for the last few years over these rules for access to Bonneville capital for the fish and wildlife program. The Council has stated its belief that Bonneville has read the governing legal requirements and accounting rules more strictly than warranted, resulting in more restricted use of capital funding than is necessary or prudent. Specific issues have included whether a project must cost more than \$1 million to be eligible for capital funding; whether and how separate but related actions that each cost less than \$1 million may be aggregated to reach the threshold; whether a "crediting" mechanism must be in place first for a project to be eligible for capital funding and of what type; when and how planning expenses for a capital project may be capitalized; and more.

In the last set of multi-year project recommendations (in the provincial review process), the Council recommended projects for capital funding based on our understanding of the rules of access for capital funding. This was just before the Bonneville rules and policy were clarified. The end result was that the Council recommended a number of projects for capital funding that Bonneville did not allow to be funded in that way. Projects either stalled or had to be funded out of the very tight expense budget if they were to go forward, while the available capital funds went largely unused.

The Council directly raised these capital policy issues with Bonneville in the Council's funding recommendation decisions in FY05 and FY06. Bonneville held firm to the rules of access in its capital policy. The only two types of projects that have managed to satisfy the capital rules in any systematic way have been the actual construction costs of major hatchery facilities and large land acquisitions for wildlife mitigation (and last year, Bonneville allowed certain related wildlife land acquisition projects to be aggregated to reach the \$1 million threshold). Project types that Bonneville has deemed *not* to satisfy the capital rules have included other wildlife land acquisition projects (as less than \$1 million); nearly all land acquisitions to protect habitat for fish, even if well over the monetary threshold, on the grounds that the program lacks a crediting mechanism for fish habitat acquisitions (outside of the context of the Hungry Horse and Libby mitigation programs); planning expenses for major capital facilities; and large coordinated investments in fish habitat protection through installation of fish screens or other passage improvements, water optimization and other similar work. The application of the rules for access to capital in this last category may be tightening.

The Council needs to decide how to proceed as it reviews project proposals for in all these areas for FY07 to 09. It seems pointless once again to include projects in the capital budget that we know Bonneville will conclude do not satisfy the rules for access to capital, and then write up the issue in the decision memo. The practical choices are to yield (for the moment) or elevate the issue in a more substantial way, through a higher profile political or legal strategy.

**Preliminary Staff Recommendation:**

The staff's preliminary recommendation is to acquiesce in the Bonneville policy for the purposes of constructing the FY 07-09 budget recommendations. Acquiescence does *not* mean giving up on seeking changes in the capital policy. What it would mean is that in constructing the planning budget recommendation for the coming fiscal years, the Council would develop the capital and expense parts of the budgets using Bonneville's interpretation rules for access to capital. At the same time, the Council could pledge to continue to try to get Bonneville to modify those rules or (more likely) be more flexible in their application, with the possibility of adjusting the set of projects in the capital side of the budget in the future if the capital policy changes or moderates in application.

**Comment received:** The Committee largely agreed with the preliminary staff recommendation. While the Committee did not endorse in every particular what it understands to be Bonneville's capital policy, it did decide that what is most immediately important is having Bonneville clearly document its capital funding policy -- to be clear about what the rules are and to be consistent in applying them. However, the Committee was not willing to accept without more investigation and discussion that the expense fund for fish and wildlife be decremented retroactively because some projects were identified by Bonneville that have been previously capitalized but do not meet capital funding requirements. The Committee accepts that those projects need to be funded in the future with expense funds.

**Staff Recommendation:** No change from the Preliminary recommendation. The staff will work with Bonneville to determine if there is flexibility around Bonneville's initial comment that the expense fund will have to be decremented retroactively for the projects recently reclassified from capital eligible to not being capital eligible.

## 6. Funding the Operating and Maintenance Costs of a Maturing Program

The fish and wildlife program is in its third decade of implementation and is maturing. That is, over the years, program implementation has included the development of infrastructure that is durable, providing ongoing fish and wildlife benefits. Consider the types of projects funded in the 20+ years of fish and wildlife program implementation -- the construction of hatcheries; building riparian fences; installing fish-friendly irrigation structures and screens; securing interests in land; building housing facilities. In most cases, these investments have been made with an expectation, in fact a commitment in many cases, that Bonneville would provide funding post “build-out” to operate and maintain these facilities to continue the flow of fish and wildlife benefits over a long period of time.

The Council has observed that the costs to operate and maintain the infrastructure built up under the fish and wildlife program is growing, and consuming a larger share of the available expense budget each year. The Council has observed that if this trend continues without a significantly expanding expense budget, there will be diminishing flexibility in the program to start new projects directed at emerging or shifting priorities. This is the basic “problem statement” that the staff suggests a discussion of -- that operations and maintenance costs are consuming an ever-increasing portion of the available budget reducing new opportunity and flexibility in the program.

A critical part of the background for a discussion on ways to fund the operation and maintenance of the program is to recognize from the outset that the historical approach to implementing the fish and wildlife program is quite different than many of the “grants-type” programs we see operating in the region or nationally. That is, most grants-type programs provide a single block of funding to accomplish the objective. In those grants programs, the types activities funded don’t require a continuous funding stream for operations and maintenance, or those future operations and maintenance funding needs are assumed by the grantee in some way. On the other hand, because Bonneville has a legal obligations to accomplish fish and wildlife protection, mitigation and enhancement, and those obligations extend over time, this program has always sought to ensure that the flow of benefits from initial investments in infrastructure continue over time as well. A second critical part of the background is to recognize that operations and maintenance funding has usually been developed on a project-by-project basis, with each project identifying its requirements but without really presenting a long-term maintenance plan and without any form of uniform or standard operations activities and costs guidelines. And, as noted above, operations and maintenance costs have been expensed in most instances.

The staff believes that the Council, Bonneville, and others should consider alternative approaches for developing and funding the continued operation and maintenance costs of the infrastructure built as part of the program. Trust funds, capitalization, benchmarking costs, explicit maintenance plans and other issue should be explored. In short, it could be said that it is time to start looking at the entirety of the fish and wildlife program as a mature and durable program and develop a more cohesive and comprehensive maintenance plan for it and more creative and efficient ways to fund that maintenance plan.

**Preliminary Staff Recommendation:** The Committee should consider and discuss the “problem statement” noted above -- that as the program matures, operations and maintenance costs are consuming available budget and limiting options for new and emerging needs and

priorities. If the Committee accepts that problem statement and believes it is a priority issue, it should direct staff to further scope the issue and develop proposed alternatives for Council and regional consideration.

## **7. Future Project Selection Process -- Organization, Timing, and Other Particulars**

The organization and schedule of the project selection process being used to make recommendations for FY 07-09 funding was born out of necessity. The Council knew and made clear that it was not the ideal. This current process was developed to refresh Council, ISRP and public reviews of proposals that had not been reviewed for several years in some instances, and to begin the alignment of projects to recently completed and adopted subbasin plans. However, neither the Council, its staff, the ISRP, nor the participants in the process believe that this sort of project section process -- all proposals reviewed on a compressed schedule -- should be sustained into the future. So, even as we conduct this FY 07-09 process, the staff suggests that it is time to start designing what the next project selection process should look like, what schedule it should have, and what its objectives are.

First, note that there are some basic elements of any project selection process -- project proposals are developed using standardized forms; independent scientific review is conducted on the proposals, there is public review of ISRP reports, prioritization of the work against program objectives and available budget, and ultimately Council review and recommendations to Bonneville. Further, the project selection process requires principles or bases for choosing how to allocate the funding made available by Bonneville across the region. A definite schedule is required so that the many interests participating (sponsors, Council, ISRP, Bonneville) can plan their participation and deliver the products they are responsible for within the process. Mindful of those basic elements or broad parameters of any project selection process, we would like to discuss alternative designs for the next project review. At this time, we have two concepts we would like to start exploring:

- **Geographically focused reviews -- Province oriented**

This “model” is the former rolling provincial review. The Council started the project selection process by calling for proposals in a first set of provinces and started working through the review process. A call for proposals in a second set of provinces was initiated before the first was completed; then a third set of provinces, and so forth. Proposals for all types of projects -- new, ongoing, habitat focused, hatcheries, research, etc -- were invited for whatever set of provinces was in the review. The ISRP did site-visits, heard sponsor presentations on proposals, and public and Council review was deliberate and in-depth. This sequenced and staggered provincial review was conducted over more than two years.

The Council could choose to return to the geography based staggered province review process for the next round of project selection.

- **Theme or “Compartment” reviews -- Topic oriented**

As the Council was considering how to design the current review process, there was considerable discussion about developing a different model for project selection -- one that is not based so strictly on provinces or geography, but rather, one that seeks, sorts and prioritizes project

selection by “compartment” or project type. Some of the observations made around this conversation were that it might be useful to have projects of a similar type reviewed and prioritized as a compartment, without regard for their location. It may allow cost, and method comparisons among similar types of projects, which could facilitate cost benchmarking, or development of standard or common management practices.

Compartment review may allow the Council, ISRP, and sponsors to recognize some fundamental differences between some ongoing project proposals differently and new proposals. For example, does it make sense to treat the operations and maintenance budgets for hatchery facilities, lands acquired for wildlife, etc as entirely discretionary? Said another way, is it really accurate to suggest that every dollar in the annual expense budget is truly discretionary and available for new proposals, or is some portion of that essentially committed to sustain program-developed infrastructure? (Consider the discussion from Issue 6 about Operations and Maintenance above). Further, does it makes sense to standardize the duration of the Council’s funding recommendations, or should the projects in some “compartments” be given longer (or shorter) duration funding recommendations?

Attached to this document is a diagram that has been used by the staff to illustrate and discuss at a staff level the concept of a compartment or theme based project selection process.

**Preliminary Staff Recommendation:** The staff would like the Committee to start to discuss alternative approaches to the next project selection process. Advice on what policy level objectives it believes the Council may want to pursue in the next round of project selection would help the staff develop one of the two process models more fully, or to develop other models (possibly a combination of the two). Further, as recognized this fall, if the Council chose an approach and started the review process within the next year, it would be possible to revise the FY 09 recommendations it makes for some set of projects in this current process (see the staggered review diagram attachment) -- this is not to say such a revision is a necessity, just a possibility.

### **III. Potential Programmatic Issues for Council Consideration in Future Iterations**

The staff anticipates that the following programmatic issues will require some Council consideration and direction in the coming months. They are not critical at this point in the project selection process. However, the staff wants the Council and the public to see this list so that it may anticipate where the staff and Council will be going next.

- **Status and use of the Council’s Research Plan in establishing research sequence and priorities**
- **Purpose of identifying funding and implementation partnerships in recommended proposals**
- **Recognition and use of cost-sharing MOU between USDA Forest Service and the Bonneville Power Administration**



- **Process for annual review and renewal of recommendations in Fiscal Years 2008 and 2009.**

Each year the Council will conduct a process to review and confirm the annual budgets recommended here. As part of that process, the Council asks Bonneville to present a summary from contractor performance reports, the accomplishments of each project relative to the proposal that was recommended by the Council. The report should explain any variances in actual performance from what was proposed.

- **Within-year budget adjustment process**
- **Integrate Step review with subbasin plans, and incorporate ISRP comments.**
- **Coordinated review of other direct funded programs**

The LSRCF program is not part of what is considered the traditional “direct program” funded by Bonneville. Historically, the program (U.S. Fish and Wildlife Service) received annual congressional appropriations, and Bonneville reimbursed the Treasury for those appropriations. This “reimbursable” program was not originally specifically subject to ISRP and Council review under the 1996 Gorton amendment to the Act. However, in 1998, the U.S. Congress’ Senate-House conference report on the fiscal year 1999 Energy and Water Development Appropriations bill directed the Council to have the ISRP to annually review all fish and wildlife projects, programs, or measures included in federal agency budgets that are reimbursed by Bonneville using the same standards and criteria of the 1996 amendment, and to report to Congress on those reviews. The LSRCF is no longer a true “reimbursable” project, and as part of the FY 2007 - 2009 process we have not initiated a review of the program.

#### **IV. Project Specific Issues**

*The staff anticipates that most project specific issues will start to emerge as the local groups and the ISRP complete their work in early to mid-June 2006. We include this section as a placeholder so that the Council and public can see the full framework of this rolling memorandum.*

##### **Basinwide Projects**

##### **Blue Mountain Province**

##### **Columbia Cascade Province**

##### **Columbia Gorge Province**

##### **Columbia Plateau Province**

##### **Lower Columbia Province**

## Estuary Province

## Middle Snake Province

## Mountain Columbia Province

### A. Province-Wide Issues

#### 1. Consideration of proposals that cannot reference an adopted Subbasin Plan

The Council received five project proposals from areas without subbasin plans in the Mountain Columbia Province. Three of the projects (one in the Bitterroot and two in the Clark Fork) are requests for funding for habitat work. The other two projects are proposals to develop a subbasin plan in the Blackfoot and Bitterroot respectively. Because the local review groups were asked to prioritize projects largely using subbasin plans, these projects obviously do not fit neatly into that process.

##### a. Projects to Develop Subbasin Plans in the Blackfoot and Bitterroot

The Council recognized during the subbasin planning process that subbasin plans were not being developed at the time in the Bitterroot and the Blackfoot for a variety of reasons. The Council also recognized at the time that plans would be developed for these subbasins in future proceedings (see Findings adopted in the Subbasin Plan Amendment Process).

**Preliminary Staff Recommendation:** The Montana Council members consistently expressed their desire that provision be made for developing additional subbasin plans in Montana in the future. The Council supported the State's desire to defer some subbasin planning development into the future. The following language was adopted by the Council in its September 2005 *Subbasin Plan Amendments Findings and Response to Comments*:

*The decision to focus on two of the five Montana subbasins in this first subbasin planning exercise was made by the State of Montana and the tribal co-managers, largely because there is little to no history of Bonneville funding in the other basins. The Council deferred to this decision. The Council understands that Montana and the tribes intend to develop recommendations for the other subbasins in future program amendment proceedings.*

The staff recommends that the proposals that have been submitted to develop subbasin plans for the Blackfoot and Bitterroot Subbasins be reviewed in the FY 07-09 process on their merits. A statement of local support from those reviewing proposals in the Mountain Columbia would be ideal, but ultimately, this is a Council decision. If Montana acknowledges that developing these plans is a priority for the State, and if the Committee reiterates that filling out and completing the subbasin level provisions of its program is a goal, these projects should continue through the review process and should be considered candidates for Bonneville funding from the Mountain Columbia Province allocation. The Council and staff will want to coordinate closely with the sponsors to ensure that the subbasin plans are developed subject to the same standards as those already adopted by the Council.

b. Projects in Subbasins with No Subbasin Plans

The 2007-2009 project selection process is largely based on implementation of the adopted subbasin plans. There are a handful of subbasins in the region that have not yet developed subbasin plans for the Council's program. The Bitterroot and Clark Fork Subbasins in Montana are two of those subbasins. The Council should decide whether this automatically excludes the project proposals from these areas from funding during this process, or whether information like ISRP guidance, biological opinion or ESA requirements, or other pertinent information should be considered before making a funding decision.

**Preliminary Staff Recommendation:** While subbasin plan level provisions offer the most direct and pertinent program direction for evaluating and prioritizing proposals for subbasin-scale habitat work, there remains the broader program provisions as a standard -- the 2000 Program/2003 Mainstem Amendments have provisions that habitat work may be evaluated against. The question becomes whether or not these proposals are a priority within available Mountain Columbia budget. The absence of subbasin plans might makes it *harder* for project sponsors to demonstrate they propose priority work when they are competing with projects that can link not *only* to the 2000 Program, but also the adopted detailed subbasin plan. While it may be difficult, it is not impossible and the staff does not recommend foreclosing that opportunity to these project sponsors. The staff recommends that if these projects emerge as prioritized within available budget (and subject to ISRP review and Council consideration) that they be candidates for funding.

**Mountain Snake Province**

**Intermountain Province**

**Upper Snake Province**

**IV. [Placeholder for Council determinations/findings that address 4(h)(10)(D)]**

**How the Council fully considered the recommendations of the ISRP**

**How the Council implemented other requirements of the 1996 Amendment to the Northwest Power Act.**

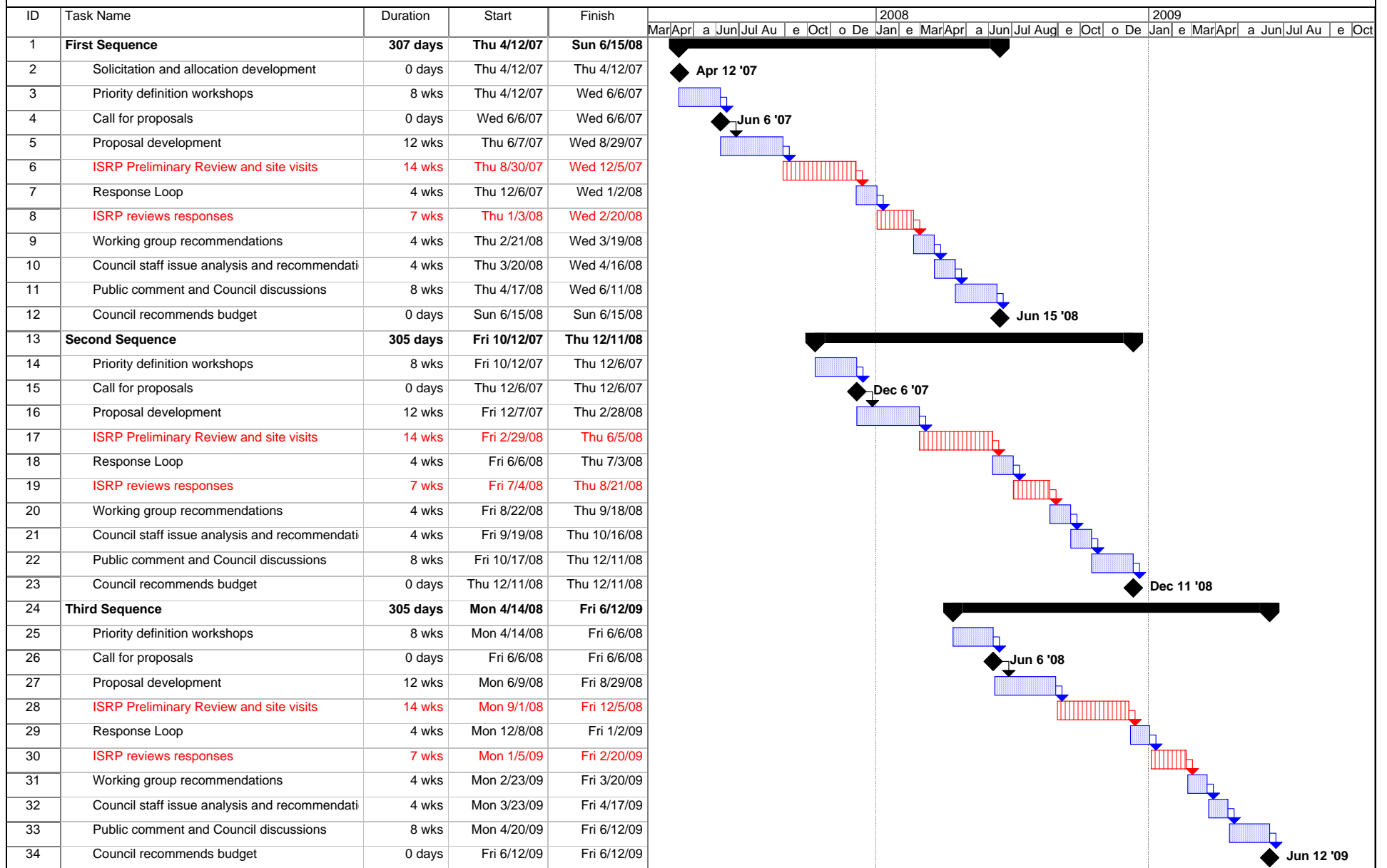
**Cost effectiveness**

**Taking into consideration effects of ocean conditions**

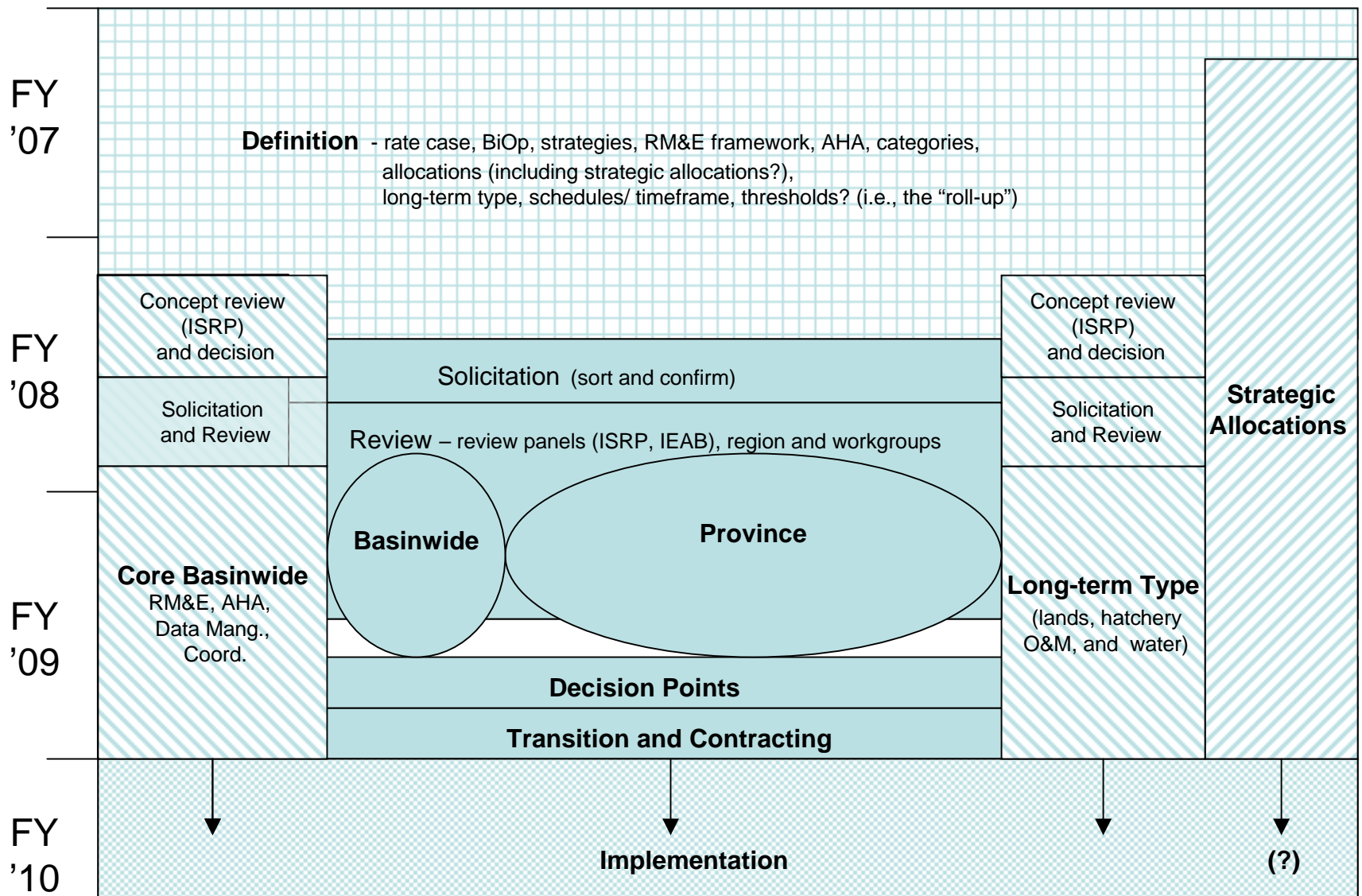
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## Conceptual Timeline for Next Rolling Provincial Review



Project: Next provincial review.mpp Date: Tue 8/30/05	Task		Milestone		External Tasks	
	Split		Summary		External Milestone	
	Progress		Project Summary		Deadline	



### Draft rolling issue memo calendar \* (draft March 30, 2006)

\*This chart represents an approximate timeframe for addressing programmatic issues in the FY 2007-2009 Project Selection Process. This is just an approximation. The order that issues will be addressed will likely change from time to time. Some issues may be resolved without needing Council attention and new ones may be introduced and need immediate attention.

	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct
F4, 1	Confirm funding, ESA integration	Integrated M&E framework, Capital use	O&M Next selection process	Coord w/ other direct funded prog, In lieu, Partnership/cost sharing,	SOY 08/09, Within yr process, STEP rev	Project Specific Issues			
F4, 2		Confirm funding, ESA integration	Integrated M&E framework, Capital use	O&M Next selection process	Coord w/ other direct funded prog, In lieu, Partnership/co st sharing,	SOY 08/09, Within yr process, STEP rev	Project Specific Issues		
C			Confirm funding, ESA integration	Integrated M&E framework, Capital use	O&M Next selection process	Coord w/ other direct funded prog, In lieu, Partnership /cost sharing,	SOY 08/09, Within yr process, STEP rev	Project Specific Issues,	
other				Staff draft recommendation MS/Sys	ISRP prelim report Local priorities				Council recommendations

F4, 1= first discussion with F&W Committee, present preliminary staff recommendation

F4, 2=Green - second discussion with F&W Committee, present staff recommendation

C =Discussion with full Council, present F&W Committee recommendation

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