

Cost Savings Workgroup Report and FAQs

February 2, 2016

The cost savings workgroup met for seven hours on three separate occasions in December 2015. Our goal was to ensure a mutual understanding of how the cost savings methodology would be employed. This necessarily involved an in-depth discussion of the Bonneville budgeting process. We also reviewed a list of potential cost savings targets, to be further discussed at our meeting on February 19. Based on our discussions in December, the workgroup provides the following report and recommendations to the Fish and Wildlife Committee in the form of FAQs.

1. What projects will be targeted for cost savings?

The methodology identifies two obvious sources for cost savings: (1) projects scheduled for close-out and (2) projects that will have a significant reduction in savings (\$50k or more). The workgroup will target these sources first.

The methodology also contemplates that the Council and Bonneville may scrutinize projects for other reasons (poor performance, for example). For the time being, however, the cost savings workgroup intends to confine its cost savings review to the methodology's objective criteria. While Bonneville agrees that there may be other issues and problems with projects that could lead to cost savings and thus warrant discussion, the workgroup believes that curtailment of other projects involve policy issues that should be addressed by the fish committee in other processes (such as project review). *See paragraph 8 below.*

2. How will projects be identified?

Bonneville will query Taurus ("CBFish") on a quarterly basis to produce a list of projects that reflect the objective criteria in IVA1-2 of the methodology (projects scheduled for closeout and projects having reductions in spending of \$50k or more).

Projects that are "closing out" are identified by their closing date as specified in CBFish. Projects that will have reductions in spending of \$50k or more will be identified by comparing the current year's budget amount (FY2016) with the previous year's budget amount (FY2015). The potential savings to be realized from closeouts and reductions is the difference between the FY2016 budgeted amount and the FY2015 budgeted amount. In other words, a reduction to a project's baseline budget will be identified. By way of example, Oregon is mothballing a facility as part of project #2007-404-00 (spring chinook captive propagation). The budget will be reduced from \$501,099 to \$146,092 for a total savings of \$355,007. That amount would be identified on the list produced by Bonneville in the quarter in which the savings are to be realized.

3. Is CBFish the best data source for this effort?

Yes. The financial data contained in CBFish is the system of record financial information that is audited and is a reliable data source for targeting cost savings. Other data sets in CBFish (i.e., WE budgets, some metrics, etc.) may not be at this standard, which is why they are not utilized in the cost savings effort.

4. What about budget transfers shown in CBFish? Are those potential cost savings targets?

It depends.

There are various budget transfers that appear in CBFish that are important to delineate: (1) temporary transfers for a project (2) temporary transfers within a sponsor's portfolio and (3) baseline transfers during the Start of Year (SOY) review. The workgroup recommends that only the third category of transfers be available for cost savings in order to avoid micromanagement of project budgets, and to maximize available dollars given the staggered nature of contracts across the fiscal year.

- Temporary project budget transfers involve funds that are temporarily reprogrammed within an existing project without any net increase in spending to the program. Bonneville does not view this as a "close out" or "reduction in spending" under the methodology, but rather, as an adjustment of the timing of available funds for the work. Such budgeting adjustments make the best use of available funds to support the scope of the original project and allow sponsors to adaptively manage a project (principles the Council has supported).
- On project sponsor portfolio management, Bonneville may allow for a temporary transfer of funds from one project, where work cannot be implemented for various reasons, to another project within the sponsor's overall portfolio that could make use of additional funds to advance work within the scope of the project. Bonneville believes that continuing this portfolio management is important because (1) it is only a temporary transfer (i.e., it does not constitute a savings that would be available in subsequent years) (2) it provides an opportunity to implement on-the-ground actions that are consistent with project scope and Council recommendation; and (3) it maximizes the use of the available budget.
- SOY baseline transfers: In some instances, Bonneville has reallocated the budget from a BiOp project to other work necessary to satisfy BiOp commitments. Bonneville has agreed to flag such project close-outs, or SOY baseline transfers, in the future as anticipated under the cost savings

methodology rather than reallocating funds without Council involvement. Unless the Council directs otherwise, this particular form of portfolio management within the cost savings effort means that Bonneville is no longer entitled to direct that savings once a project closes out. That savings will now be identified and set aside for emerging priorities.

5. So what will change with cost savings if budget transfers within a project and budget management within a portfolio is allowed to continue?

Portfolio management within an existing budget allows Bonneville to work with sponsors to maximize funds as they are available within a given budget cycle, and as the timing of the project unfolds. The workgroup does not intend to disrupt this process between Bonneville and the sponsors. Instead, the workgroup will focus on actual reductions in baseline budgets that will result in real money being made available in the next fiscal year. Before the cost savings workgroup came into existence, Bonneville would reprogram these dollars within existing programs. The cost savings workgroup will earmark these dollars for emerging priorities, which may include new projects.

6. When will the cost savings identified by the workgroup be available to fund new work?

Bonneville will produce a list of projects scheduled for close-out or significant cost reduction on a quarterly basis. The workgroup will complete its annual review in March each fiscal year, in time to inform the following year's SOY budget. Savings identified by the workgroup and approved by the Council in 2016, for example, would be available for reallocation during the FY17 SOY review and available to project sponsors by October 2016. Bonneville will document savings as a budget planning placeholder in the following year's budget.

7. What about paragraphs IVA4 and VIIIE of the methodology?

Paragraph IVA4 allows Bonneville to include "a list of projects that might be considered for close-out consistent with the cost savings principles set forth in paragraph VIII."

Paragraph VIIIE, in particular, authorizes cost savings for projects that receive unfavorable scientific review, efficiencies achieved within existing projects or programs, and projects where benefits are low or FCRPS nexus is lacking.

The cost savings workgroup acknowledges that these provisions allow for a broader range of cost savings than if the inquiry were limited to project close-outs or cost reductions of \$50k or more, particularly in VIIIE4 (projects where benefits are low or FCRPS nexus is lacking). At least for the first year of the cost savings effort, we are cautious about using the potential authority in IVA and VIIIE to find cost savings. A more mechanical or fundamental application of cost savings principles as described in

question 1 above will bring more credibility and reliability to the process in its infancy, which may be just as important as the cost savings effort itself.

The downside is that we will likely achieve less savings through the mechanistic review because fewer projects will be targeted for review. A preliminary look at FY2016 savings for the first three quarters reveals approximately \$500k in savings through the CBFish query. If we expanded the list to include additional IVA4/VIIIE projects (some examples include the relative survival studies and ISEMP) the potential for savings would increase significantly, however, the certainty of such savings would remain ambiguous given time for review and consideration of VIIIF (which requires reasonable lead time for potential changes).

8. *What if the Council wants to see additional projects targeted for cost savings, i.e., those projects which are “no longer reporting useful results” as stated in the 2014 FW Program?*

Bonneville strongly supports a methodological review process to reassess project priorities as a means to optimize budget planning, such as categorical, provincial or programmatic reviews. These reviews may present the best opportunity for Bonneville and the Council to identify savings that may be available for new work.

9. *Bonneville historically spends less than the SOY budget each year. Is the difference between the SOY budget and the actual amount spent eligible for cost savings consideration?*

No.

Bonneville sets its fish and wildlife SOY budget at a higher level than is actually available because historic analysis shows that with prudent project management there is little risk of overspending the available budget. This enables Bonneville to maximize the utilization of its available budget for implementing fish and wildlife projects. To illustrate, in FY 2015 the SOY budget was \$305M for an available budget of \$260M; actual end-of-year expenditures was \$258.2M. For accounting purposes, the key factor is when funding is actually expended – not when it is obligated. Bonneville manages the risk of over allocating its budget based on the value of contracts that are in place and by knowing that the SOY budget will not be expended in full that fiscal year. This allows Bonneville to maximize available funding for projects without jeopardizing the available budget.

The key to cost savings is to identify actual reductions in baseline budgets (through closeouts or reductions in spending), which will then reduce the following year’s SOY budget and leave some “headroom” for new projects in the next fiscal year.