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May 4, 2004

## MEMORANDUM

**TO:** Council Members

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

**SUBJECT:** Fiscal Years 2005-2007 Fish and Wildlife Program budget review and development process.

### Introduction

The central and state staff has been scoping potential fish and wildlife implementation strategy for Fiscal Years 2005 through 2007. We discussed this topic with the Fish and Wildlife Committee in March and April and will take the opportunity in May to update the Committee and Council as to what we see as potential alternative strategies for the next three fiscal years (FY) of Program implementation. While we do not seek formal recommendations or approvals at this meeting, we do seek to have continued Committee and Council guidance on our general strategic direction.

FY 2005 - 2007 transition to subbasin planning implementation

### **Large-scale issues that inform program implementation strategy for the next three years.**

In discussing the general strategy for program implementation over the next few years, the staff has identified four major issues that it believes must shape program implementation strategy for the next three fiscal years:

1. Continue to support work approved in Council's provincial review decisions;
2. The Council's three-year provincial review approvals began to expire in FY 03, the Council's recommendations for four more provinces expire at the end of FY 04<sup>1</sup>, and all but mainstem/systemwide conclude with Fiscal Year 2005. The Council recognizes,

however, that implementation may be delayed due to contracting delays and the switch to a spending based accounting system.

3. Subbasin plans become available to guide program implementation beginning in Fiscal Year 2006 (possibly FY 2005);
4. Program funding levels and project selection procedures for Fiscal Year 2007 and beyond are not established at this time.

Council state and central staff have been discussing different alternatives for making the transition from implementation of the last rolling provincial review to implementation of subbasin plans.

a). The first alternative is a phased-in approach to the implementation of subbasin plans over fiscal years 2006 and 2007. FY 2005 would remain the final year for implementation of the recommendations from the rolling provincial review, then subbasin planning implementation would begin in FY 2006 with the implementation of ongoing, “core” program projects. These projects would be evaluated against the subbasin plans that are adopted into the program in early FY 2005. Solicitation and review of project proposals would occur during the spring and summer of FY 2005 and projects would begin implementation with the start of FY 2006. In FY 2007, full implementation of subbasin plans would occur with the solicitation for new work occurring in FY 2006 and implementation beginning in FY 2007.

b). A second alternative is to expedite subbasin plan implementation. Solicitation of projects would begin during fiscal year FY 2004, following the ISRP’s review of subbasin plans. Implementation of projects, both ongoing “core” work and new work would begin shortly after the adoption of subbasin plans, probably in the spring of FY 2005. Projects that are consistent with subbasin plans could begin implementation immediately in FY 2005. To implement this alternative, staff would need to begin working on revising the proposal forms and solicitation process in June of this year, as subbasin plans are being reviewed.

c). A third alternative is to continue to implement the Councils recommendations from the rolling province reviews in FY 2005. Solicitation and review of all projects, ongoing and new, would occur during FY 2005 and implementation for the entire program could begin in at the start of FY 2006.

Many of the details for each alternative still need to be identified and discussed. In order to implement any of the above alternatives, the Council needs to address regional allocation of funding within the program. If the Council opts to implement alternative b, discussions regarding regional allocation of funding would need to begin immediately.

#### FY 2005 workplan and budget development

After initial input from the Fish and Wildlife Committee in March of this year, a budget workgroup consisting of Council, CBFWA, and Bonneville staff began working to develop a start of year budget and workplan for FY 2005. The approach that Council staff has taken for FY 2005 focuses on implementation of the Council’s completed provincial review process. The primary objective is to ensure that the work previously approved by the Council during the

provincial review is completed. Keeping this objective in mind, the budget workgroup discussed each project in the Program to assess its implementation status against its Council recommendation. The work group identified several programmatic issues as the review of projects occurred and these issues will be discussed and presented to the fish and wildlife committee at its June meeting, along with a staff recommended budget.

The budget work group built the workplan, project by project from the ground up, based upon the needs of projects. We did not consider any specific overall budget target while developing the draft budget. Currently, the draft project budgets are under review by the project sponsors and others in the region. Comments on the draft project budgets are due by May 24, 2004. The workgroup identified seven "issues" during the FY 2005 review of projects. These issues were created to group projects together that may require additional scrutiny prior to funding in FY 2005. As each of the issues is addressed by Council action, adjustments to the programmatic budget may be realized. We anticipate that the overall program budget will be limited and we propose to employ the issues to develop strategies to meet the budget target. We would like to discuss the budget target with the Committee and Council at the May meeting.

Draft issues identified in review:

**Issue 1 - Cost Increases.** Several projects identified increased costs in their budget requests. These increased costs were generally related to two causes. One impact on some project budgets has been a re-evaluation of indirect costs for some state and tribal agencies by the federal government. This increase in indirect costs places a burden on the individual projects if their planning budgets are not increased accordingly. The second cause of increased costs is generally related to operations and maintenance budgets. The planning budgets for these projects have been level funded for up to five years, yet actual operating costs have increased due to increased external costs (i.e., electricity rates) that are out of the project sponsor's control. In addition, many of the Program's hatcheries are aging and require additional maintenance.

**Issue 2 – Programmatic Issues.** During the original provincial review process, many programmatic issues were identified as a condition of funding. These issues may still be valid or may not have been addressed as expected during the provincial review. These issues need to be updated prior to the FY 2005 SOY decision. In addition, new programmatic issues are being defined (such as management plans for land parcels).

**Issue 3 – FCRPS Responsibility Undetermined.** Bonneville has questioned several projects that were recommended by the Council during the provincial review process and suggests that these projects may not be a Federal Columbia River Power System (FCRPS) responsibility. The Council staff expects to discuss these projects with Bonneville to understand the concerns. If they will not be funded, those project budgets could be adjusted appropriately.

**Issue 4 – Step Review Check-in Needed.** Several projects are working through the 3 Step Process for funding hatchery and restoration construction projects. Many of these FY 2005 project budgets may not be consistent with their current position in the Step process. These project budgets should be reviewed against the project deliverables and schedule for the new and improved capital plan.

**Issue 5 – Project Review Needed.** Many projects appear to be operating outside of the Council recommended scope or intent. These projects need close review by Council to confirm appropriate budget and scope for FY 2005 and to determine if requested deliverables have been addressed (such as watershed assessments).

**Issue 6 – Research/Habitat Restoration Preceding Subbasin Plans.** The funding decisions during the provincial review were based on Subbasin Summaries that were drafted as an interim measure until Subbasin Plans could be completed. The provincial review provided an opportunity to prioritize proposed habitat actions against the Subbasin Summaries' stated needs. The three-year provincial review recommendations have been completed in most subbasins. A process for prioritizing new habitat actions has not been established for FY 2005. The subbasin plans have not yet been adopted in those subbasins. For these reasons, it may not be appropriate to continue with new habitat work until the Subbasin Plans can be used to prioritize work within the subbasins. Ongoing operations, maintenance, monitoring and evaluation tasks will be required by these projects to protect past investments and preserve infrastructure for future work that is guided by subbasin plans.

**Issue 7 – Land Capitalization Policy.** With the recent definition of BPA's land capitalization policy, it may become necessary to move several land acquisition projects from the capital portion of the Program budget to the expense portion. These projects need to be reviewed in that context to determine if projects should be shifted from one category to the other. Also, the projects need to be reviewed under the existing policy to determine if they are still viable projects or should be removed from the budget all together.