UMATILLA INDIAN RESERVATION
SHOSHONE-BANNOCK TRIBES
WASHINGTON FISH & WILDLIFE
SALISH KOOTENAI TRIBES • NATIONAL MARINE FISHERIES SERVICE • YAKAMA INDIAN NATION • IDAHO FISH & GAME
WARM SPRINGS RESERVATION • BURNS-PAIUTE • KOOTENAI TRIBE • SPOKANE TRIBE • MONTANA FISH, WILDLIFE & PARKS
COLVILLE RESERVATION • OREGON FISH & WILDLIFE • NEZ PERCE TRIBE • KALISPEL TRIBE • U.S. FISH & WILDLIFE • SHOSHONE-PAIUTE TRIBE • COEUR D' ALENE TRIBE

COLUMBIA BASIN FISH & WILDLIFE AUTHORITY

DATE: April 14, 2005

TO: Members Management Group (MMG)

FROM: CBFWA staff

SUBJECT: DRAFT Comments on FY 2006 Start of Year Planning Budget Level

DRAFT

Analysis of FY 2006 Start of Year Planning Budget for the Expense Portion of the Fish and Wildlife Program

In the attached letter dated October 3, 2003 from Steve Wright, Administrator Bonneville Power Administration (BPA) to the Judy Danielson, Chair of the Northwest Power and Conservation Council (NPCC), Steve Wright presented the rules that would be applied for managing the fish and wildlife program for the duration of the current power rate period. The rules for the Expense portion of the program stated:
"When the Council completes its recommendations for expense budgets, the budgets, together with actual expenditures for years already complete and the forecast for the not-yet-complete current year, should result in expenses for FY 2003-2006 period that average no more than $139 million per year. The Expense in any one year can fluctuate by up to plus or minus 10 percent of the $139 million, allowing a range between $125 million and $153 million for any year, provided the program is within the $556 million total."

In order to honor these rules and promises to fully fund the program according to the rate case agreement, BPA must increase the planning budget in FY 2005 to no less than $154 million, and as much as $160 million, and allow for a planning budget for FY 2006 of $160 million. If the planning budget is not increased in FY 2005, it will be impossible to achieve a spending rate in FY 2006 that achieves both a total spending from FY 2003-2006 of $556 million and spending in FY 2006 within 10% of $139 million. There are adequate existing project opportunities to support this level of funding and it is likely that a solicitation would not be required to achieve this level of spending.

The actual expenditures since 2002 have averaged $136.8 million (Table 1). Using the table presented below, CBFWA staff performed an analysis to determine potential scenarios for completing this rate case on schedule, based on historic spending patterns in the fish and wildlife program. Because it is very difficult for BPA and others to predict the actual expenditures for FY 2005 in the Expense budget, staff has developed three scenarios to demonstrate the risk associated with setting the planning budget.

851 SW Sixth Avenue, Suite 260
Portland, Oregon 97204
503/229-0191 Fax 503/229-0443
www.cbfwa.org

Table 1. BPA Planned and Actual Expenditures for the Fish and Wildlife Program (2002 – 2005, in millions).

FY	Planned Expense	Actuals Expense	Planned Capital	Actuals Capital
2002	*	$137.1	*	$6.1
2003	*	$140.7	*	$11.6
2004	$152.9	$132.8		$8.5
2005	$151.3			
Average		**$136.8**		**$8.7**

*Planning budgets in FY 2002 and 2003 were not broken out by Expense and Capital.

Scenario 1 – *Full expenditure of FY 2005 planning target.*
If the Program spends the full planning budget in FY 2005 ($151.3M), the Program would need to spend $133.1 million in FY 2006 in order to average $139 million during the rate case period. Since the budgeting rules only include FY 2003 through FY 2006, a total spending of $131.2 million in 2006 would meet the administrator's promise to total $556 million (Table 2). Keep in mind that this is the best case scenario and the Program has never spent the full amount planned, except during 2003 when the budget was reduced by $45 million part way through the fiscal year. Also, it is uncertain that BPA has the full planning budget in FY 2005 currently under contract. If the Program were to spend the full planning budget during FY 2005 (which has never happened), the planning budget should be set at $131.2 million for FY 2006.

Table 2. Scenarios for Actual Expenditures for the Expense Portion of the Fish and Wildlife Program.

Fiscal Year	Scenario 1	Scenario 2	Scenario 3
2003	$140.7	$140.7	$140.7
2004	$132.8	$132.8	$132.8
2005	*$151.3*	*$139.0*	*$127.3*
2006	*$131.2*	*$143.5*	*$155.2*
Total	$556.0	$556.0	$556.0

Scenario 2 – *Generally anticipated level of spending in FY 2005.*
If the Program spends $139 million in FY 2005, the Program would need to spend $145.4 million in FY 2006 in order to average $139 million over the term of the rate case. In order to meet the administrator's budgeting rules, only $143.5 million would need to be spent in the final year of the rate case to total $556 million. If this level of spending occurred in FY 2005 it would be consistent with the FY 2004 example that the Program only expends 90% of its annual planning target. This means that the planning target in the Program should exceed the expected actual expenditure by 10%. Therefore the

planning budget for FY 2006 should be set at the expected actual expenditures plus 10%, or $161.5 million.

Scenario 3 – *FY 2005 spending hits current forecast.*
The current trajectory for spending in the Expense portion of the Integrated Program, using a linear forecast model with an adjustment for end of year billings based on the average end of year billings for the past three years, is $127.3 million. As identified in the administrator's rules, this forecast must be taken into account for planning purposes of the program. If this projection comes true, the Program would need to spend $157.1 million in FY 2006 in order to expend the full allocation of funding for the fish and wildlife program during the current rate case; or $155.2 million to meet the BPA total of $556 million from FY 2003-2006. Using FY 2004 as an example that the Program only expends 90% of its planning target, in the worst case the planning budget for FY 2006 should be set at $174.5 million. This high planning target should be tempered by setting the planning budget for FY 2005 at a higher level.

Summary
The planning budget for FY 2005 should be increased to at least $154 million ($139M target/0.90), and considering the current spending trajectory, probably closer to $160 million.

The planning budget for FY 2006 should be set at $159.4 million ($143.5M/0.9) in order to meet BPA commitments to fully expend the rate case annual funding level of $139 million average (assuming spending in FY 2005 of at least $139 million).

Arguments for setting the budget at the higher end of this scale:

1) The FY 2005 spending will not exceed $139 million based on all reasonable assumptions (suggesting that the middle range presented here should be the low end of the spectrum); unless the planning target is increased for FY 2005.
2) The spending in the Capital budget has been significantly below the planned amount. In essence BPA has been collecting rates based on spending (actual expense of) $3.6 million per year for capital repayment (10% of obligations), yet only spending $0.9 million per year (10% of average Capital spending FY 02-04). Effectively, BPA has spent approximately $8.1 million less in annual revenues for the Capital portion of the Program and this rate will continue given BPA's current Capital policy for fish and wildlife projects and the slow pace of implementation of Capital projects. For this reason, BPA can risk overspending the Program in the next two years to increase the possibility of meeting their rate case commitments, without exceeding the anticipated rate case spending levels.
3) BPA continues to argue that there should be no difference between planning budgets and spending plans. However, our recent spending demonstrates that there is a difference in these numbers, based on the reality of implementing over 450 contracts each year. BPA has allowed NPCC to plan to higher target levels than expected accruals in the past two years based on this reality. At worst, the risk is very low in setting spending limits higher expected spending.

4) The program is suffering from a chronic problem of reduced funding. The fish and wildlife program relies heavily on personnel to implement its actions. Effectively, the program budget has been reduced each year for the past five years due to the "level funding" policy that is not allowing projects to adapt to inflationary and cost of living pressures. These pressures should be addressed immediately to insure maximum benefit from the Program's projects.
5) The Rolling Province Review funded only half of the projects recommended by CBFWA and approved by ISRP. The Updated Proposed Action is applying significant pressure to the Program, squeezing out mitigation obligations. There are currently nearly $2.5 million in within year budget adjustment requests in the queue for funding. Considering all of these factors, it is clear that the opportunities exist to fully spend the funding if it were made available to the Program. If funding is not provided, these opportunities and needs will continue to be deferred.
6) The fish and wildlife program made significant cuts ($45 million) during BPA's financial crisis. The current BPA administrator promised the NPPC that BPA would fully fund the fish and wildlife program according the rate schedule BPA is charging its customers. If these planning targets are not implemented, it would be one more demonstration of BPA's conflict of interest in managing the funding of the fish and wildlife program, placing short term rate impacts ahead of long term fish and wildlife commitments.
7) Finally, in the last rate case transition from FY 2001 to FY 2002, almost $200 million of fish and wildlife funding was left on the table and not rolled forward as prescribed in the previous MOA. It should be unacceptable for the region to allow BPA to defer any portion of their spending for fish and wildlife during this rate case with the assumption it will be recouped in future rate periods.