



Department of Energy

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ENVIRONMENT, FISH AND WILDLIFE

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In reply refer to: KEWS

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Subject: Draft start of year budget for FY 2003

Bonneville Power Administration's (BPA) Division of Fish and Wildlife has undertaken a review of how we conduct business as we implement our obligations to the region's fish and wildlife resources under the Northwest Power Act, the Endangered Species Act and other applicable laws. It is clear to me that the region can significantly improve the effectiveness of the Integrated Program. With BPA confronting one of the most significant financial challenges in its history, our need to act on these improvements has taken on an even greater sense of urgency. BPA's financial situation also places on us an urgent need to look for ways to effectively manage the costs of fish and wildlife investments without compromising the substance of our efforts. Through a series of questions and answers I'd like to describe the changes we will implement beginning this fiscal year.

I appreciate the support I've received from many of your managers and staff and would prefer that we took more time to discuss these changes. However, I am convinced that we have a sufficient understanding in these areas to move ahead now. I am committed to working with you and your staff to resolve any confusion or additional challenges these improvements present to us.

1. What is the most significant change to BPA's start of year budget process for FY 2003?

The most significant change is that we are moving our administration of the Integrated Program from obligation-based budgeting to accrual-based budgeting.

2. What is the difference between obligation-based and accrual-based budgeting?

Using obligation-based budgeting, funds are made available for the full value of a project or contract when it is approved even if all of the deliverables and resulting payments will not be made during the budget year the funds were first made available (obligated). According to the General Accounting Office, an obligations-based budget is a policy statement of fiscal priorities and proposals for allocating expenditures and revenues.

Using accrual-based budgeting, funds are made available for the amount of deliverables that will actually be received and paid for (accrued) by BPA during the budget year. The American Management Association characterizes an accrual-based budget as an estimate of future expenses.

3. Why is BPA changing to accrual-based budgeting now?

BPA, as a self-financed agency, manages on accruals. As an agency, we need to understand and manage to what we forecast we will spend in each year. The Integrated Program was the last large program in the agency still being managed on obligations. This has been a source of confusion both within BPA and with our regional partners. By managing on an accrual basis, we can better ensure that funds are available when needed without tying up potentially millions of dollars in any one year for activities that do not need the money. As we move down this path we expect to see improved project execution as well. Projects that historically hold more funds than they need will become more obvious. We can take timely action to shift those funds to projects that are ready and able to use the funds to achieve expected results. It is entirely possible that we will achieve a higher level of program accomplishment.

4. How will this affect budgeting for fish and wildlife projects?

Accrual budgeting will not affect the substance of any fish and wildlife project. However, it will have a number of immediate effects on fish and wildlife project and contract management. The most significant effect is that it will eliminate the concept of “carry over” funds.

In past years, if all of the funds obligated to a contract were not spent they could be carried over and added to the funds budgeted for that project in subsequent years. For example, if \$100,000 remained unspent on a contract in FY 2001, it was often carried over to FY 2002. If the amount obligated for that contract in FY 2002 was \$200,000, then the \$100,000 carry over amount was added to the FY 2002. The project would then start FY 2002 with a total budget of \$300,000.

Under the accrual-based system, unspent funds from FY 2002 are not carried over. In the example given in the previous paragraph, the project would start FY 2003 with a budget of \$200,000.

5. Does this mean the project will lose the \$100,000?

No, the project does not “lose the money”. So long as the need, scope and results of the project do not materially change, the funds will be available in the year they are actually expended. For example, if the project sponsor and the Contract Officer Technical Representative (COTR) agree work planned for FY 2002 will actually get done in FY 2003, along with all the work previously forecast for 2003, then enough funds can be added to the FY 2003 budget for that project to pay for the designated work. Once again, using the example from Q&A 4, if the project sponsor and the COTR agree work costing \$35,000 did not get

done last year but will be accomplished in FY 2003, then \$35,000 can be added to the FY 2003 budget for the project. In that case, the project would start FY 2003 with a budget of \$235,000.

This type of adjustment could be made in any year of the project provided that the increase fits within the overall Integrated Program budget for that fiscal year.

6. What if a project goes over budget?

If the accrual for a given project exceeds the amount budgeted for the current year, then BPA may require other projects and sponsors reduce their spending needs in order to cover the cost overrun.

7. Are there exceptions to this practice?

If uncontrollable events occur that require funding above the allotted budget amount, the need for additional funding will be evaluated and decided through the Within-Year Reallocation Process. A project that incurs an agreed upon cost increase may have its current and out-year budgets adjusted. However, this adjustment must be made within the overall budget plan for the Integrated Program.

8. What about the 10 percent rule?

In previous years, if a project exceeded its budget by up to 10 percent, the additional cost would be covered.

The 10 percent rule has been suspended for FY 2003 and future years. It is imperative that all parties, project sponsors and COTRs alike, improve their budgeting processes and aggressively manage projects to produce the expected results at or below the forecasted cost.

9. How does this relate to the planning number we're used to working with?

BPA and the Northwest Power Planning Council (Council) will still need a way to "size the plan" to fit the available funds and vice versa. This will take additional dialogue. Ideally, the planning number and the accrual budget would be one and the same. This is unlikely to ever be precise since the plan is a policy statement of fiscal priorities and proposals for allocating expenditures and revenues while the accrual budget is an estimate of future expenses. With this distinction in mind, we should clear up any confusion and improve both the planning and execution phases of the Integrated Program.

10. Why are you taking these actions?

In light of our financial situation, we are looking for ways to better manage costs in the near term that do not adversely affect the results of the Integrated Program.

11. Bottom line, what are the benefits of accrual-based budgeting?

Overall, accrual-based budgeting provides better alignment with our fundamental program objective to achieve maximum biological results at the least cost. Accrual-based budgeting:

- Measures tangible results that are a link to performance standards;
- Is more business-like;
- Is needed to derive full benefits of product costing;
- Clarifies lines of responsibility and accountability since forecast and actuals are comparable; and,
- Provides an increased ability to manage expenses and liabilities during the year.

In summary: BPA will implement the following changes and begin to manage so as to eliminate the shortfall currently projected for the remainder of the rate period:

- BPA is moving from obligation-based to accrual-based budgeting because accrual-based budgeting provides much greater accuracy in estimating the costs that will actually be incurred in a given fiscal year and results in more cost-effective implementation of programs.
- Funds will not be carried over to the next fiscal year unless it is specifically justified.
- If the accruals for a project exceed the amount budgeted for that year, then funds will have to be taken from other projects to cover the added cost.
- The 10 percent rule has been suspended for FY 2003 and future years.

Sincerely,

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