

APPROVED BY RCO DIRECTOR KALEEN COTTINGHAM

Meeting Date: August 9, 2018
Title: Setting Funding Request Levels for 2019-2021
Prepared By: Wendy Brown, Recreation and Conservation Office, Policy Director

Summary
The Recreation and Conservation Office (RCO) will submit its 2019-21 biennial budget request to the Office of Financial Management by September 12, 2018. This memo presents the 2019-21 biennial operating and capital budget proposals to the Salmon Recovery Funding Board for approval.

Board Action Requested
This item will be a: Request for Decision
 Request for Direction
 Briefing

The Recreation and Conservation Office (RCO) will submit a biennial budget request for the 2019-2021 biennium to the Office of Financial Management (OFM) by September 12, 2018. It will include operating budget decision packages, capital budget requests, and authorization to spend federal funds received during the biennium.

Federal Funding Level

The board receives annual federal Pacific Coastal Salmon Recovery Fund (PCSRF) awards administered through the National Oceanic and Atmospheric Administration (NOAA). The minimum required match is 33 percent. The PCSRF announcement and awards are made on an annual cycle. RCO applies for each award in the spring and receives funding in October. This year, RCO applied for \$25 million, the maximum allowed, and has received confirmation from NOAA that we will receive \$18.8 million.

The RCO recommends including an authorization to spend \$50 million in federal PCSRF awards, which is the total potential grant award during the 2019-21 biennium.

The alternatives for selecting the amount to request in state funding is set forth in the remainder of the memo.

Planning for 2019-21 Operating and Capital Budget Requests

Washington State enacts budgets on a two-year cycle, effective on July 1 of each odd-numbered year. The budget approved for the 2019-21 biennium will be effective from July 1, 2019 through June 30, 2021.

The Recreation and Conservation Office (RCO) will submit its 2019-21 biennial budget request to the Office of Financial Management (OFM) in September 2018. The Salmon Recovery Funding Board (board) must make decisions at its August 9, 2018 meeting regarding the amount of state funds that RCO should include in its operating and capital budget requests related to salmon activities and programs.

The 2019-21 operating budget outlook is predicted to have the usual pressures. The good news is that the state believes it has met its McCleary obligations by investing an additional \$5 billion in the current biennium in K-12 Education. However, the next big challenge for the operating budget will be investing in the state's behavioral health system. So far, an additional \$121 million has already been obligated for behavioral health improvements in the 2019-21 biennium and more investments will likely be identified. General government spending and collective bargaining will put additional pressures on spending. The official budget outlook for the 2019-21 biennium adopted by the Economic and Revenue Forecast Council projects only \$88 million in unobligated balance at the end of the biennium.

The capital budget outlook will likely be stable, barring spikes in interest rates or drastic changes in economic factors. Estimated bond capacity in the 2019-21 biennium, given the most recent revenue forecast, is \$3.2 billion, which is approximately \$300 million higher than the current biennium. Competing pressures for bond funding in the upcoming biennium include increased K-12 school construction, behavioral health capacity, and housing to address homelessness. There were also a large number of construction projects where the design was funded in the 2017-19 budgets, which will create intense competition for construction funding in the 2019-21 budget.

While RCO administers many capital grant programs, this memorandum focuses on the funding for the Salmon Recovery Funding Board grant program. Other salmon recovery grant program funding level requests will be decided based on recommendations from other state agencies who jointly manage those programs (Estuary and Salmon Restoration Program, Puget Sound Acquisition and Restoration Program, Coastal Restoration Grants, Brian Abbott Fish Barrier Removal Board, and Family Forest Fish Passage Program).

Operating Budget

The RCO is seeking board approval for the following operating budget decision packages related to salmon recovery. Decision packages are required by the Office of Financial Management when agencies are proposing new budget items.

1. Fund Shift of a Portion of Lead Entity Baseline Funding to the Operating Budget and Enhanced Funding for Regional Organizations. Total request = \$866,500

Base Funding for Lead Entity Capacity – Operating Budget Shift

In the 2017-19 budgets, the Legislature included \$2.4 million in lead entity capacity funding as part of the SRFB (Salmon-State) capital appropriation and \$907,000 in general funds in the operating budget. Currently, it takes \$2.5 million in the capital budget and \$907,000 in the operating budget, for a total of \$3.407 million, to fund the lead entity process. Given the nature of the work done by the lead entities, our estimate is that approximately 50% of the work can be directly tied to project development and thus eligible to be funded by the capital budget. The ratio will be better defined as part of the lean project.

Thus, using the idea of 50 percent of the baseline lead entity capacity funding coming from the operating budget and 50 percent coming from the capital budget, we are proposing to request \$796,500 in new general fund state dollars for lead entities. With the carry forward funding of \$907,000 in the current budget for lead entities, this represents a total of \$1,703,500 for lead entity capacity in the operating budget. The remaining \$1,703,500 in capacity funding will be requested in the capital budget as part of the SRFB appropriation. This approach represents a

change from the current funding split of lead entity capacity funds appropriated in the operating and capital budgets and will require a decision package from RCO. We believe this new proposed split of funding between operating and capital budgets more accurately reflects the work of the lead entities and is necessary to ensure that we are spending general obligation bonds in accordance with direction set forth by the Office of Financial Management.

We are also proposing to ask for an increase in funds to lead entities, should the capital appropriation for projects rise above \$16.5 million and will do so as part of the capital budget request – see below for more details.

Enhanced Funding to the Regional Organizations

Also included in this decision package will be \$70,000 in general funds for the regional organizations to engage in orca recovery efforts related to increased hatchery production of Chinook salmon. Some of the recommendations coming from the Orca Task Force may recommend increasing hatchery production. This decision package will allow the regional organizations to collaborate with the Washington Department of Fish and Wildlife to minimize the impact of hatchery salmon on wild salmon.

2. Facilitated Update of the Statewide Salmon Recovery Strategy. Total request = \$150,000

It has been nearly 20 years since development and adoption of *Extinction is Not an Option*, the statewide salmon recovery strategy. We believe it is time to review and update the strategy, given all that we have learned in the past 20 years. This request will include funding for a facilitator, GSRO staffing, and other administrative costs.

3. Fund Shift from WDFW and Ecology Budgets to RCO Budget for GSRO Support. Total request = \$288,000

In the early years of the Governor’s Salmon Recovery Office, staff were “loaned” from various agencies to the Governor’s Office. When the GSRO was transferred to RCO in 2009, the other agencies provided funding through inter-agency agreements to cover several of the employees. Since 2009, every biennium after the budgets are adopted, RCO negotiates with WDFW and Ecology for funding to cover several of the FTEs in the GSRO. This creates uncertainty about whether funding will be available to a point in the year after the Legislature has adjourned. To bring some stability and certainty to the GSRO, we will propose to OFM that this funding be shifted from the budgets of WDFW and Ecology and permanently appropriated to RCO in the biennial budget.

Table 1. Summary of Proposed Salmon-Related Operating Budget New Requests (Decision Packages)

Decision Package for General Funds in the Operating Budget	New Funding Request
Lead Entity and Regional Organization Capacity Funding	\$866,500
Update of Statewide Salmon Recovery Strategy	\$150,000
GSRO Budget Stabilization Shift	\$288,000
Total	\$1,304,500

Capital Budget

Of the six salmon programs administered by RCO, four are managed jointly with other agencies: Estuary and Salmon Restoration Program (ESRP), Puget Sound Acquisition and Restoration Program (PSAR), Family Forest Fish Passage Program, and Brian Abbot Fish Barrier Removal Board. The Salmon Recovery Funding Board has exclusive authority over the SRFB grant program and shares authority over the Puget Sound Acquisition and Restoration Program with the Puget Sound Partnership.

However, the decision before the board on August 9, 2018, will focus exclusively on the Salmon Recovery Funding Board grant program. Budget requests for two of those other grant programs – ESRP and PSAR – have been set in consultation with the other managing agencies and are reported below. The board will be asked to support the funding requests in those other grant programs.

From discussions at the June 2018 SRFB meeting, the proposal before the board includes a funding request level based on three elements:

- Projects identified in the lead entities' four-year project forecasts
- Focused investments on projects for two species that are close to achieving Endangered Species Act-viability (recovery) (Summer chum in Hood Canal and Steelhead in the Mid-Columbia)
- Enhanced capacity funding to lead entities to manage the project development process should there be project funding above the 2017-19 level

Projects in the Lead Entities' Four-Year Project Forecasts

The number and amount of planned grant requests for salmon recovery projects is a factor in determining the amount of money that should be requested in the next biennium.

In lieu of soliciting grant applications in advance of the budget submittal for 2019-2021, the Habitat Work Schedule (database) was used to generate a list of anticipated future proposed projects and costs based on current four-year project forecasts. A data pull of projects included in the Habitat Work Schedule from the lead entities' four-year forecast yielded a total of approximately 300 projects for a total of \$306 million. At the June 2018 SRFB meeting, the board expressed interest in using this metric as the basis of the funding request and was most interested in the three highest percent levels presented. Those three options and associated dollar amounts are shown below in Table 2. The board may select one of the three options shown below or another percentage level all together.

Table 2. Potential SRFB Capital Budget Request based on Percentage of Projects from Lead Entity 4-Year Forecast

Percent of Total	SRFB Capital Budget Request Amount (Based on a Total Project Amount of \$306 million)
15	\$45,900,000
20	\$61,200,000
25	\$76,500,000

Focused Investment: Amount Needed to Achieve ESA-Viability for Salmon in Two Regions

The end goal of all of our efforts is the recovery of salmon and the process of achieving “de-listing” under the Endangered Species Act (ESA). To that end, populations in two salmon recovery regions are close to achieving ESA-viability: Hood Canal Summer Chum Salmon and the Mid-Columbia steelhead. Viability is the technical determination used to evaluate if a species can be considered for de-listing by the National Marine Fisheries Service (NMFS). Achieving ESA-viability in even one of the salmon recovery regions would not only be a major success for those who have worked for years on the ground, but also for the Governor, Washington Legislature, and our delegates in Congress who advocate for and appropriate funding for this work.

In addition to the regular SRFB appropriation request, we recommend the board consider requesting funds for a suite of specific projects in one or both of these regions that will significantly move us towards viability and a potential delisting determination by NMFS (Tables 3 and 4). These projects have been identified as focused habitat protection and restoration actions ready for implementation in the next three to four years. While de-listing is not a guarantee, given other factors that affect salmon population viability such as ocean conditions and predation pressures, we believe from conversations with NMFS that the projects listed below will get us within striking range of achieving recovery of Hood Canal summer chum and Mid-Columbia Steelhead populations.

Table 3. Projects to Achieve ESA-Viability of Summer Chum Salmon, Hood Canal Salmon Recovery Region

Project	Project Cost
Big Quilcene River Floodplain and Riparian Protection and Restoration	\$3,300,000
Snow and Salmon Creeks Restoration and Reconnection	\$2,400,000
Dosewallips Rivers large woody debris installation	\$800,000
Union River large woody debris installation	\$500,000
Dewatto River habitat protection for possible reintroduction efforts	\$800,000
Big Beef Creek Habitat Protection/Reintroduction and Estuary Restoration	\$2,000,000
Total	\$9,800,000

Table 4. Projects to significantly improve ESA Viability Status of Mid-Columbia Steelhead Populations within the Yakima and Snake River Salmon Recovery Regions

Project	Project Cost
Barrier Removals in the Caribou Major Spawning Area	\$1,800,000
Barrier Removals in the Naneum Major Spawning Area	\$3,200,000
Wenas Barrier and Screening Assessment	\$200,000
Kittitas Reach Acquisitions and Floodplain Restoration	\$1,500,000
Little Naches Floodplain Restoration Phase II	\$600,000
Gap to Gap Reach Floodplain Restoration (Yakima County proposed habitat elements in conjunction with Corp of Engineers funded levee setback)	\$800,000
Wapato Reach Floodplain Restoration	\$600,000
Mill Creek fish passage, Walla Walla River instream flow enhancement, Touchet River floodplain restoration and protection	\$7,000,000
Total	\$15,700,000

Capacity Funding

As stated above, we are proposing to request \$1,703,500 in base funding to lead entities in the capital budget. Additionally, we recognize the need for enhanced capacity funding to these organizations should the capital appropriation increase above the current project funding level of \$16.5 million, as greater capital funding results in the need for greater efforts on the ground to develop projects. This enhancement in lead entity capacity funding will be requested in the capital budget and will be calculated as a percentage of the appropriation amount above \$16.5 million. Therefore, we are proposing to request 1.5 percent of any capital appropriation amount that is above the \$16.5 million funding level. At the \$45.9 million option, this enhancement equates to \$441,000; at the \$61.2 million option, it equates to \$670,500 in additional lead entity capacity funding; and it equals \$900,000 in additional lead entity capacity funding at the \$76.5 million option.

Salmon Recovery Funding Board Capital Budget Request Summary

Table 5 shows the total funding amounts under the three options. Table 6 presents projected lead entity funding under the three capital budget funding options.

Table 5. Summary of Proposed Elements in the Salmon Recovery Funding Board Capital Budget Request

	2017-19 Funding	Option 1. 15% of HWS Projects	Option 2. 20% of HWS Projects	Option 3. 25% of HWS Projects
SRFB Appropriation Based on Projects in HWS	\$16,500,000	\$45,900,000	\$61,200,000	\$76,500,000
Focused Investments in Hood Canal	\$0	\$9,800,000	\$9,800,000	\$9,800,000
Focused Investments in Mid-Columbia	\$0	\$15,700,000	\$15,700,000	\$15,700,000
Lead Entity Capacity – Base Funds	\$2,400,000	\$1,703,500	\$1,703,500	\$1,703,500
Lead Entity Capacity – to address increased project funding	\$0	\$441,000	\$670,500	\$900,000
Total SRFB Capital Request	\$18,900,000	\$73,544,500	\$89,074,000	\$104,603,500

Table 6. Summary of Lead Entity Capacity Funding Under the Capital Budget Funding Options

Lead Entity Funding	2017-19 Funding	Option 1. 15% of HWS Projects	Option 2. 20% of HWS Projects	Option 3. 25% of HWS Projects
Operating Budget – Carry Forward	\$907,000	\$907,000	\$907,000	\$907,000
Operating Budget – Shift of Base Funds	\$0	\$866,500	\$866,500	\$866,500
Capital Budget – Base Funds	\$2,400,000	\$1,703,500	\$1,703,500	\$1,703,500
Capital Budget - Enhancements	\$0	\$441,000	\$670,500	\$900,000
Total	\$3,307,000*	\$3,918,000	\$4,147,500	\$4,377,000

*The additional \$100,000 needed to fully fund the lead entities in 2017-19 has come from returned funds.

Estuary and Salmon Restoration Program and Puget Sound Acquisition and Restoration

The Department of Fish and Wildlife (WDFW) determines the funding request level for the Estuary and Salmon Restoration Program (ESRP) in consultation with RCO and the Puget Sound Partnership (PSP). It is based on the number of viable projects estimated for the next funding cycle.

Table 7. Historic Funding Levels for ESRP (all figures shown in millions)

Biennium	Amount Requested	Governor's Budget	Appropriation
07-09	\$12	\$7.5	\$12
09-11	\$10	\$7	\$7
11-13	\$10	\$0	\$5
13-15	\$10	\$10	\$10
15-17	\$20	\$10	\$8
17-19	\$20	\$10	\$8

At the time of writing this memo, WDFW is requesting that RCO include a **\$20 million capital budget request** for this program in its budget request for 2019-21. This number has not been fully vetted within WDFW and may change. RCO would continue to administer the grant funds and manage the grant program. These projects are typically large scale with an average project cost of about \$1.2 million.

The Puget Sound Partnership (PSP) determines the funding request level for the Puget Sound Acquisition and Restoration (PSAR) Program. It is also based on the number of viable projects estimated for the next funding cycle.

Table 8. Historic Funding Levels for PSAR (all figures shown in millions)

Biennium	Amount Requested	Governor's Budget	Appropriation
07-09	\$100	\$42	\$40.75
09-11	\$55	\$33	\$33
11-13	\$55	\$15	\$15
13-15	\$80	\$80	\$70
15-17	\$140	\$50	\$37
17-19	\$80	\$50	\$40

PSP has requested that RCO include an **\$83 million capital budget request** for this program in its budget request for 2019-21, and is asking the board to support this amount. RCO would continue to administer the grant funds and manage the program.

Next Steps

Based on the decision of the board, RCO staff will prepare operating and capital budget requests for submittal to OFM in early September.