

January 30, 2012

Dear Mayor Adams and Commissioners,

Please accept the following comments on behalf of the 2012 Bureau of Environmental Services Budget Advisory Committee (BAC). We would like to first express our appreciation to Dean Marriot and the Bureau of Environmental Services' staff and to Commissioner Saltzman and his staff. The process was well run, the materials and presentations provided were informative and on point, and our questions were generally responded to in a timely and complete manner.

We would also like to take this opportunity to commend BES for completing the Big Pipe on time and on budget. This is a monumental accomplishment. For more than a decade the Big Pipe Project has been the primary factor driving BES rates and budgets and the success of this project was fundamental to the efficient and effective operation of the Bureau. It is important to note that while the Big Pipe project is now complete, there is a backlog of grey and green infrastructure projects that need to be done to ensure the continued efficacy of the system. This is not the time to disinvest in BES projects or its employees.

The following are our specific recommendations:

1. **Recommendation regarding the FY 2013 Rate Increase:** We were asked to consider the projected rate increase from the Financial Plan of 6.4% as well as reductions to 6.0% and 5.5%. The bulk of our process was spent assessing the impacts of these different rate increases. We commend staff for bringing forward what we believe are carefully considered proposals at each level. Our recommendation is that council not focus on a specific rate target below 6.4% but rather take only cuts that were identified by staff as projects that were already complete, postponed to future budget cycles due to timing issues, or which would not have significant impacts on programmatic operations. We believe that many of the cuts being considered, especially those associated with a 5.5% rate increase, could have a significant negative impact on mission-critical objectives. In fact, there is a considerable backlog of maintenance work that could justify a rate increase of greater than 6.4%. One of the significant factors that played into our deliberations was the benefit to the ratepayer relative to the potential impacts to the sewer and stormwater systems. A reduction from 6.4% to 5.5% would result in a savings for the average single family residence of approximately \$0.75/ month or \$9.00/ year. These very limited savings in our opinion simply do not justify the negative impact to critical services. We would also note that this years budget process allowed only for cuts and prohibited the inclusion of any add packages. This approach results in a stagnant budget in which critical new priorities cannot be incorporated. Regardless of where the rates are set, the BAC believes that it is important to consider both cut and add packages to ensure that use of available rates is optimized.

2. **Incorporate Auditors Recommendations into Future Budget Decision-Making**

Processes: We recommend that council adopt recommendations 1 and 2 from the City Auditor's Report: *Spending Utility Ratepayer Money* (March 2011). These recommendations are as follows:

- *For new significant expenditures funded by ratepayer money, develop a utility rate impact statement demonstrating how the new budget item supports the costs to provide water and sewer services and how it will affect utility rates.*
- *For new significant expenditures funded by ratepayer money, ensure that the budget process and Council approval process are followed. For any items that do not follow the complete budget and Council approval process, do not use ratepayer money.*

We believe that these recommendations could serve a valuable role in ensuring the funds are spent on the most mission-critical programs as well as restoring public confidence in bureau expenditures. It will be important to define the term "significant" in order to give these recommendations meaning.

3. **Independent Utility Commission:** The BAC did not take a position on either Commissioner Saltzman's proposal or the Charter Commission proposal for an Independent Utility Commission. We felt that it was important to allow the Charter Commission to finish its work before evaluating either of these proposals. However, BAC members would urge Council to carefully consider two issues as it assesses the various IUC proposals: First, it was not clear to us exactly how an unelected IUC would increase accountability and transparency relative to the existing process where the rates are set by elected council members. Second, it is important to consider how an IUC would complement the already existing PURB and BAC. We would urge the council to consider whether it is making the best use of these existing public oversight groups as it contemplates adding a third.

4. **Ensure that the BAC and PURB Remain Engaged Throughout the Entire Budget Process:** The citizen volunteers on the BAC and PURB donate considerable time working with bureau staff to go through budget proposals in great detail. Several members of the BAC have participated in this process for multiple years and have developed a sophisticated understanding of bureau operations and budgets. Unfortunately the BAC process has been designed such that the committee meets and reports to council early in the budget cycle but is dismissed before the Mayor's Proposed Budget emerges and the real discussion begins. While we fully respect Council's right to accept, modify or reject the recommendations of the BAC and the PURB, we also believe that we do have valuable insights to offer throughout the entire budget process. Our work would be given the greatest meaning if in fact the BAC remained in place throughout the entire process including adequate time to meet and discuss all material changes to the Bureau's Requested Budget and standing to testify as a committee before the final budget is adopted. It would also be beneficial for the BAC to be involved with the three Bureau Budget updates (BuMP) which occur during the year.

5. **Span of Control:** We were asked by Commissioner Saltzman to explore span of control issues within the Bureau of Environmental Services. We reviewed the Auditor's Report on Span of Control (August 2011), looked specifically at how span

of control was allocated throughout BES and discussed with staff any specific areas where span of control appeared particularly high or low. We did not find any situations where staff was unable to provide reasonable explanations for existing span of control levels. We would further note that the Auditor's Report points out that "the City has still not implemented the general recommendations from the 1994 (span of control) study, even though these recommendations remain useful to the City. It seems to us that the next step would be for council to determine whether it wants to implement the 1994 recommendations.

6. **Review the Utility Base Charge During the Coming Year for Potential Future Modification:** In 2000 the Council shifted from a Cost of Service Base Charge to one which excluded certain relevant costs. The excluded costs, which included meter maintenance, were added to the volume charge. The basis for this change was to encourage conservation and to shift some costs from small residential users to large users. The currently adopted approach is not considered an industry best ratemaking practice and there appear to be questions as to whether the manner in which these funds are currently allocated between the Water Bureau and Bureau of Environmental Services accurately reflect the real costs incurred by the two bureaus. While the BAC did not have time to fully investigate this issue to the point where we could develop a well informed position, we would urge the two bureaus to take a closer look at this issue during the coming year and believe this should be a priority BAC discussion and recommendation in 2013.
7. **Drainage District Stormwater Fees:** The BAC recommends restoring the offsite stormwater fees in full for property owners within the Multnomah County Drainage District. These fees were curtailed several years back. The BAC recognizes that all members of the community benefit from the projects funded by offsite stormwater fees no matter where they are located. The exemption should be discontinued in the FY2013 budget cycle.
8. **Endangered Species Program Funding:** While the Endangered Species Program is housed at BES, other bureaus that benefit directly from ESA related permitting services were expected to contribute funding to support this program. In recent years there has been a steady decline in the amount of revenue being transferred to BES from other Bureaus and BES has shouldered an increasing percentage of the cost. The BAC recommends that historic funding levels from all bureaus that utilize this service be fully restored. In the absence of restored inter-bureau funding transfers as part of the adopted city budget, we would recommend that BES begin charging other bureaus an hourly rate when ESA related services are required.
9. **Inter-Bureau Funding Transfers from BES to other City Bureaus:** These transfers have come under increased scrutiny in recent years. The BAC determined that these transfers are not inherently appropriate or inappropriate. To the degree that another bureau can deliver BES mission-critical services in a more efficient manner than BES itself, such transfers are fully appropriate. One key factor to consider is whether in fact the services being procured are priority functions consistent with BES'

mission. Following the two recommendations by the Auditor cited in point #2 above would be helpful in ensuring that this is the case. Another key factor is that the responsibility for proper execution of mission-critical services transferred to other bureaus remains with BES. Therefore it is important that performance in terms of customer service, quality, cost and timeliness are continually measured and managed by BES.

Thank you for your consideration of our recommendations.

Respectfully,

Bob Sallinger
Michael Crean
Kevin Spellman
Gordon Feighner
Karyn Hanson
Charles Van Rossen

*BES BAC Member Richard Beetle did not weigh-in on this letter so it is not necessarily representative of his views.