

January 27, 2013

To Mayor Hales, Commissioner Saltzman and the City of Portland Commissioners:

The Budget Advisory Committee (BAC) thanks Commissioner Saltzman and the City of Portland (City) Council for the opportunity to work with the Bureau of Environmental Services (BES) on the development of their 2013-2014 budget request. In the following pages we are providing our insights and recommendations for this current budget cycle. We will also be giving testimony during upcoming budget work sessions and Commission meetings. We particularly thank the BES staff members who assisted with the BAC's process. The dedication and commitment to the Bureau and to their profession made these sessions very productive as well as informative.

The BAC met with Bureau staff six times since October 2012 to discuss and review the BES 2013-2014 fiscal year proposed budget. During these meetings, the BAC received overview presentations on Bureau finances, operating programs, operating budget, capital improvement program, and BES's recommended budget cuts to achieve the 90% budget proposal, as requested by Mayor Hales. In addition, the BAC discussed the BES process for risk-based decision making being used for capital repair and replacement.

After careful review of all the materials presented to us and after several long and often technical meetings, the BAC has reached a unanimous conclusion: **The City should stay the course and keep the proposed, strategic rate increase of 6.5%.**

The BAC recognizes the importance of being fiscally responsible, especially in these lean economic times. At the same time we recognize the importance of maintaining and protecting critical existing infrastructure. These two critical actions require making proactive investments to maintain our sewer, stormwater, and environmental infrastructure as the city moves forward. We believe that the proposed 6.5% rate increase that was developed as part of the long-term economic plan for BES strikes this balance.

Critics point out that BES rates are relatively high in comparison to other cities. This short-term phenomenon was the result of the huge investment the city made in the Big Pipe over the last fifteen years. Portland was one of the first cities in the United States to confront CSO issues. As a result, the Willamette River is far cleaner today

than it was twenty years ago and the City is meeting the requirements of the Clean Water Act. Today other cities that were less proactive than Portland are now being forced to address their CSO issues, many at far higher costs than were incurred by Portland ratepayers. The result is that in the coming years, Portland will see its rates shift back towards the middle of the pack and the Big Pipe will look like a wise investment for the health of our environment as well as for the health of our economy.

Portland needs to continue to be proactive-protecting our past investments and continuing to make prudent new investments in gray and green infrastructure. In making this recommendation, we are particularly cognizant of the following principles:

**First**, the expense to maintain and replace existing infrastructure on a planned schedule is much less than to repair and replace it on an emergency basis when failure occurs. Cutting corners today will result in far more expensive fixes in the future. The BAC is concerned that many of the cuts being proposed will undermine the city's ability to maintain the quality of its existing infrastructure. We are equally concerned that even with the proposed rate increase, BES, like other city agencies, is developing a growing list of deferred maintenance. Reducing the rate increase will further exacerbate this situation.

**Second**, investing in green infrastructure is not "nice to do;" it is what we "must do." The City has recognized, since the inception of the Big Pipe project, that Portland also needs to pursue green stormwater strategies to reduce the stormwater load on the system, mitigate for new impervious development, and maintain the ecological health of the city. During the past two decades the City of Portland has become an international leader in integrating green infrastructure into the built environment. These green strategies have proven both environmentally and economically effective, in some cases providing less expensive alternatives to traditional pipe-based approaches while simultaneously providing multiple benefits in addition to their stormwater functions. Further, the city leverages substantial return on its "grey to green" investments by working with a variety of NGOs, such as Friends of Trees and the various watershed councils, who bring non-tax or citizen rate dependent resources to benefit Portland's watershed. It was our historic failure to integrate green infrastructure into the landscape that resulted in the need for the Big Pipe. Failure to maintain and continue our investment in the environment now may render the Big Pipe obsolete within a few decades, saddling future generations with an even greater liability. Many of the proposed budget reductions seriously impact core green infrastructure programs. These reductions go further than simply impacting our

environment; they also seriously undermine the extensive partnerships the city has developed to help leverage many non-City funded programs.

**Finally**, the BAC does not believe that the short-term benefits to the ratepayers justify the degree to which these cuts will undermine the city's ability to maintain and build its sewer, stormwater, and environmental programs. This will also result in short-term and long-term increases in risk of large system failures. The savings of a few dollars per month per rate payer does not warrant jeopardizing the future of Portland's sewer systems. The average Portland household will realize an approximate \$1.80 per month NET benefit from a 10% cut to the proposed budget. For the price of a cup of coffee each month, the average residential customer can continue receiving the quality service and maintenance that BES has been lauded for in the past. Admittedly, this does not account for the increase cost to business customers, some of whom will see a marginal increase similar to residential customers and some of whom may see significant increases in the BES portion of their bills. We encourage the Mayor and the Council to offer assistance that could help identify potential mitigation measures available to business customers that can decrease their overall monthly costs.

BAC members' come from diverse and experienced backgrounds with a common desire to see Portland continue to thrive. What we agree on is that BES is well run and provides one of the most vital services to the City, as well as a service that is highly under-rated. The most expensive portion of BES' work is underground, out of sight, below the thin crust of asphalt and dirt that we walk on and **only** gains attention when it breaks. All the benefits to the community, however, occur when the system is functioning.

The BAC members spent many hours reviewing the plethora of documents and spreadsheets that were provided by BES, often in answer to our request for specific ways of parsing selected budgetary items. Reviewing the City Budget is a complex and often daunting task. What is clear is the decades of experience the BES staff brings to this effort has been invaluable in building a strong and functional Bureau.

### **Basic Finding**

The BAC believes that ratepayers will benefit most if the City operates its systems in a way that minimizes the long-term costs. Taking adequate care of facilities, replacing older or damaged assets before they fail, as well as continuing to invest in new gray and green strategies are key actions for achieving this end. The BAC also believes BES currently operates at a level that ensures the integrity of the sewer and

stormwater systems, improves our environmental health, ensures compliance with all laws and regulations, and ensures the citizens of Portland are not at risk or hazard as a result of how Portland's sewer and stormwater systems are managed.

## **Recommendations**

With this in mind, we have the following observations and recommendations:

**Fund the Capital Improvement Program.** The City's storm and sewer infrastructure – conveyance and treatment – needs ongoing improvements and maintenance to meet customers' needs and to minimize expensive emergency repairs. The Bureau's risk-base approach to capital repair, replacement, and improvement is fiscally and environmentally sound. Reducing expenditures in this area will increase long-term costs and may lead to potential increases in system failures.

**Rate Funding Should be Reserved for Mission-Critical Functions.** Assigning costs to BES for projects that are not critical to the mission of BES is questionable to the BAC, to several "watchdog groups" and possibly to the ratepayers (commonly called "pass-throughs"). This may have the unintended consequence of reducing the credibility of BES expenditures while increasing resistance to mission-critical projects. Projects that are unrelated to the mission of BES should not be charged to ratepayers. Where another bureau can deliver BES mission-critical services in a more efficient manner than BES itself, then 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.

Please look at the pass-throughs in a comprehensive and strategic manner in order to appropriately delineate both the funding mechanism and the delivery vehicle. This goes for money that flows *from* BES to other bureaus, such as Portland Parks, as well as money that flows *to* BES from other bureaus, such as contributions to the Endangered Species Program. This discussion must be done holistically while involving multiple bureaus as well as citizens. In the past, the City approached this issue on a case-by-case and/or bureau-by-bureau basis, when in fact, what is needed is a comprehensive discussion and realignment. The BAC believes this project warrants high visibility and priority before another budget cycle is completed.

**Staffing:** There are 45 positions-related to "add backs" in the 4 decisions packages we were given. Those positions represent a full spectrum of personnel, from management of programs, to technical support for the analysis that guides the

bureau's risk assessments, to the timely response to system needs, as well as the care and upkeep of core assets. Some of these positions are funded through other bureaus. The BAC believes these positions are all necessary to the Bureau's core mission and in maintaining current established service levels. Care should be taken to consider long-term costs associated with short term cuts both within the Bureau and more broadly to the City's economy as a whole.

**Utilize the BAC to Provide Insight on Strategic Actions.** The BAC believes that in its current configuration it cannot provide the most strategic advice of which it is capable. In an effort to better serve the citizens of Portland and meet the needs of BES, the BAC asks to continue its work beyond this spring's budget work sessions. The results of this work will be a set of recommendations for Council's to consider on how to revise the BAC to achieve better and more strategic results.

**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 works so 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 the BAC and PURB can give valuable insight to the Council and the City throughout the entire budget process. The BAC's work is given the greatest meaning if the BAC remains in place throughout the entire process, has adequate time to meet and discuss all material changes to the Bureau's Requested Budget and has standing to testify as a committee before the final budget is adopted.

**Recommendation Regarding the FY 2014 Rate Increase.** The BAC was initially asked to consider the budget and resulting projected rate increase to the bureau's Financial Plan of 6.5%. Before we could complete that analysis, however, new budget instructions were issued in early January for a 90% base operating budget with up to 10% in "add back" packages. The 90% base would represent about \$10.5 million in reductions from current service level funding, and would still result in a rate increase of approximately 4.2%. This represents an increase to rate payers of less than \$2.00 per month per residential household. The BAC believes that the original 6.5% is the right number to use.

**Rate Stabilization Ends This Year:** This year represents the final step in the Bureau's long-term plan to use its Rate Stabilization Fund to smooth the rate increases made necessary by construction of its CSO control facilities. This year the Bureau will use \$11 million of Rate Stabilization Fund proceeds to pay ongoing expenditures. There will be no such funding next year, which will require a corresponding increase in rate revenues.

More revenue will also be necessary to pay for additional debt service on the revenue bonds required to fund ongoing capital construction, and for the effects of inflation on operating costs. In fact, reductions from current service levels will be necessary just to maintain a 6.5% rate increase in future years.

In conclusion, the BAC urges the City to keep the 6.5% rate increase that is included BES long-term strategic plan. A further cut to the capacity of BES, even at a ten percent level, will not result in significant financial relief for ratepayers. However, it will seriously erode the city's ability to deliver high quality service, undermine the integrity of the system, and put the city at significant risk of incurring higher short-term and long-term expenses as existing systems start to fail.

**Thank you again for the opportunity to review the BES proposed budget. The BAC appreciates the time BES staff have taken to describe programs, policies, and projects. The BAC looks forward to continuing its work with BES, Commissioner Saltzman, and other members of the City Council.**