



610 SW Broadway, Suite 400, Portland OR 97205 | 503-227-1984 | www.oregoncub.org

To: PUB members
From: Janice Thompson, CUB
Re: FY 2015-16 Annual Report Comments/Suggestions

September 6, 2016

Cover letter – second to last paragraph

In general, the cover letter does not convey that the City Council is subject to oversight by the PUB of their management of the public utility bureaus. This is of concern since it was City Council decisions and not unilateral decisions by either utility bureau that triggered the ballot measure and formation of the Portland Utility Overview Blue Ribbon Commission in 2014. This omission is particularly striking in the second to the last paragraph that only frames a very appropriate request that City Council members for more advance notice of Council action within the context of public engagement. The following is a suggested re-working of that paragraph:

This year, we will also engage the broader public in our discussions and deliberations. To facilitate that engagement, A major reason for reconfiguration of public utility oversight is the importance of the PUB in providing oversight of City Council management of the public utility bureaus. To increase our effectiveness in this regard, we ask City Council members to take a more proactive role in bringing issues related to either bureau to our attention early in the development, but certainly well in advance of City Council action. This will also help enhance our increased effects during the next year for broader public engagement in our discussions and deliberations.

Highlighting the PUB's oversight role regarding City Council decisions is why CUB, separate from development of this annual report, strongly recommends that the PUB accept the recommendations made in our August 1 memo at the top of page 3 as well as recommendation #7 on page 4.

Meeting participation bullets above Table 1

- Council work session on requested budgets on March 29, 2016
- **Mayor's budget work session on April 15, 2016** –I can't find a April 15, 2016 work session on either my calendar or CBO's budget calendar. Is this referring to May 12 budget committee hearing?
- Council rate setting **work session** on May 19, 2016 - this is a rate hearing and not a work session
- Meetings with Commissioner Fish on April 21, 2016 and July 28, 2016
- Testimony on Terminal 1 North resolution on August 10, 2016

Challenges and Opportunities Encountered

- **Budget Review and Input.** For both bureaus, the operations budget for fiscal years 2016-17 and the five-year capital improvement plan (2016-2021) are products of previously developed programs, plans, and studies that guide the management of bureau infrastructure. As such, the PUB had limited influence in the budget process for the first year. PUB will work with the bureaus in fiscal year 2016-17 to take a closer look at their strategic planning processes, and evaluate their proposals for future projects in the Capital Improvement Program. **Also, the PUB will ask the Commissioner to extend a request to the bureaus to limit rate increases even more than last year, acknowledging resource constraints and prioritizing core mission work of the bureaus.**

What is PUB's proposed rate increase limit in the highlighted sentence above? Will that limit be developed in consultation with the public utility bureaus and the Commissioner-in-Charge? An excerpt from CUB's testimony to the City Council at the May 19 rate hearing, provided below in italics, is suggested reading in regard to this idea.

PWB and BES – Two Approaches to Trying to Lower the Slope of Rate Increases

There are two approaches to judiciously assessing opportunities to lower the slope of rate increases, especially from the perspective of combined increases given that Portlanders get one bill for services provided by PWB and BES. The first approach is careful review of CIP planning, especially projects that are early entries or just about to enter into CIP budgets. Working backwards is another approach that is described below. These approaches are not mutually exclusive and both must be carried out with a keen awareness of meeting service level expectations and careful management of risk. Realistic expectations are also important since, as noted earlier, the overall trend of all utility rates is upward. So nobody should be thinking that futures rates are likely to go down.

Diligent Review of CIP Planning and First Year Entries in CIP Budgets

I highlighted in CUB's March 29th memo to the City Council our agreement with the CBO discussion in its PWB budget report about the importance of close scrutiny of CIP projects that appear in the first year of the five year plan since they will have long term impacts. CUB is taking this approach with both PWB and BES which is why we began asking question about the biogas utilization project a year ago and began raising concerns about the related organic waste receiving facility last fall. We greatly appreciate the assistance of both bureaus last fall in reviewing with CUB their lists of anticipated projects that would be new entries in the FY 2016-17 CIP budgets. We are also drilling down into CIP planning processes in both bureaus with an eye towards early identification of projects that would benefit from additional oversight.

This approach has both short and longer term applications. For example, the PWB's forecasted 10.7% rate increase in fiscal year 2019-20 illustrate how CIP decisions made in prior years affect rates for some time in the future. In that year anticipated capital project spending, particularly the Willamette River Crossing and Washington Park Reservoir projects, is quite significant and expenses related to the Portland Building Renovation also begin. Rate impacts that year are smoothed by use of the rate stabilization account which is appropriate and very important. Careful review, however, of possible project delays or savings opportunities that could even slightly mitigate the fiscal year 2019-20 projected rate hike needs to begin in advance of that year. This is an example of a short term application of this diligent review of CIP projects approach and CUB will also be taking this approach in reviewing both bureau's longer range CIP planning. I also want to note that CUB is also applying this approach to other aspects of BES and PWB activities, but more significant opportunities to save dollars are likely found in CIP budgets.

Working Backwards

Another approach is to pick a future year, say FY 2025-26, and work backwards to see how CIP planning as well as operations and maintenance spending in both bureaus would need to change if there was a request to lower the rates forecasted for that future year. This approach must begin with a thorough understanding of the rate making process as well as the current forecasts and the forecasting procedures of both bureaus, including an understanding of why financial forecasting is particularly challenging for PWB. One key difference in this regard is that PWB is smaller than BES, but there are other reasons for future forecasts more frequently ending up being lower for PWB compared to BES and all that background is essential for responsible use of this working backwards approach. This is also a long term exercise since it will require significant time for PWB and BES to prepare information on what they wouldn't be able to do if a combined forecasted rate in FY 2015-16 is reduced by half a percent or some other requested number.

To begin evaluating the merit of doing a working backwards exercise let's take a look at current financial projections. BES projects a 3.25% rate increase for the next five years. The five-year rate forecast by PWB indicates an uptick from the FY 2016-17 rate increase of 7% over the next four fiscal years with a peak projected rate increase of 10.7% in FY 2019-20. This is summarized in the table below.

The compounded projected rate increase over the five fiscal years in the table below is 27.85% and the average annual rate increase projections for these five years is 5.04%. This indicates that continuing to meet the current guidance of keeping combined rate increases under 5% is still feasible, though more challenging in FY 2019-20.

Actual (FY 2016-17) and Forecasted (FYs 2017-21) Rate Increase Percentages

	Actual (FY 2016-17) & Forecasted (FYs 2017-21) Rate Increase %s				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
BES – 2/3 of average bill	3.25%	3.25%	3.25%	3.25%	3.25%
PWB – 1/3 of average bill	7%	8.4%*	8.3%*	10.7%*	8.1%*
Combined Bill	4.45%	4.93%	4.95%	5.84%	5.02%

The asterisks in the table 1 are included to highlight the role of the following seismic resiliency projects in PWB's forecasted rate increases over the next five years as outlined below.

*FY 2017-18 - 8.4%

Includes Willamette River Crossing - \$12.45 million and Washington Park Reservoir - \$31 million

*FY 2018-19 - 8.3%

Includes Willamette River Crossing - \$39.7 million and Washington Park Reservoir - \$50 million

*FY 2019-20 - 10.7%

Includes Washington Park Reservoir - \$31 million and the beginning of Portland Building renovation expenses

*FY 2020-21 - 8.1%

Includes Washington Park Reservoir - \$19 million

The table and the information provided above indicate that the real question is what BES and PWB can tell us about their financial projections for the following five years.

Forecasting even for five years is very challenging which is why asking BES and PWB for longer term forecasts requires a clear understanding of the forecasting and rate setting process if this working backwards approach is used. Initial indications, though, are that BES is continuing to project 3.25% rate increases for several years following 2021. For many good reasons there is less certainty about PWB rate increase forecasts, but the downward trend seen in their FY 2020-21 projection seems likely to continue and then level off in the ballpark of their increase for the upcoming fiscal year.

CUB thanks PWB and BES staff for discussing with me these initial long term projections but I want to stress their preliminary nature. It is also critically important to understand that any of these projections could change significantly in the event of a natural disaster or major regulatory change. For example, PWB's financial projections would completely change if the City of Portland lost its Cryptosporidium variance and was ordered by environmental and health regulators to build a new water treatment plant.

If more refined long term cost projections are close to these initial estimates and if both sets of rate increases begin to stabilize in FY 2021-22, a working backwards approach exercise could still be useful but isn't likely to be addressing as big a problem as some may think. It also bears repeating that such an

exercise should be viewed as a long term project requiring significant BES and PWB staff time and is also a process that may be best done in conjunction with strategic plan updates that both bureaus are in different stages of getting underway.

Activities Completed and Member Turnover, Makeup, and Meeting Attendance

Found in the Activities Completed section is the following: “PUB members also participated in 6 administrative review hearings for both bureaus.”

It is great that PUB members provide this assistance to the bureaus. CUB strongly recommends that the PUB adopt recommendation #8 on page 4 of CUB’s August 1 memo calling for the PUB staff member to prepare regular updates on these administrative review hearings for the full PUB. This feedback loop is essential to ensure that this is an effective use of PUB member time and to identify possible systemic concerns that the PUB should address. Given the significant time burden of PUB membership, this is a regular report that should be prepared, with the pertinent PUB member, by PUB staff.

As noted in CUB’s August 1 memo, we support clarification of year-round participation of ex-officio members and expanding the size of the PUB from nine to eleven members.

CUB has concerns about time spent on PUB matters being paid for by employers of some PUB members. This is a challenging issue given time demands on volunteers and clarification of just what is being paid for by PUB member employers is suggested. Employer encouragement of employee community involvement is commendable in programs like reading to school children or delivering lunches to senior citizens on company time since they don’t raise any conflict of interest concerns. In this context, potential conflicts of interest do seem possible if the employer is a major public utility customer since it raises a concern about who the PUB member is representing – his/her employer or community interests. The Office of Neighborhood Involvement has best practice guidelines related to public engagement and consulting with them about how employers paying employees for time spent on City of Portland advisory groups is recommended.

Expectations – middle of second to the last page

- Institutionalizing and expanding the City Utility Rate Review public hearing to foster dialogue

My recollection is that this was based on the assumption that the off-site public hearing focused just on utility budgets and rates like the one held in the spring of 2014 was a practice that would continue. This was the case in the spring of 2015. However, CUB recommended a different approach in a November 15, 2015 memo to Commissioner Fish, the CBO (since they schedule budget related hearings), and PUB members. Key elements of that memo are provided in italics below:

A ten minute time window (or two five minute time slots) should be allotted for public testimony on utility bureau budgets at each of the two community budget forums.

These budget meetings are typically called forums since they are not hearings required under state budget law but are valued opportunities for public input. These community budget forums are typically three hour evening sessions managed by professional facilitators and held at non-City Hall sites. These forums cover the entire budget but seem to have a general fund focus with public comment limited to two or three minutes. The order of testimony at these community budget forums is typically determined by random selection of a potential testifier’s number and time limitations sometimes means that not all interested testifiers are called upon to provide their input. There is some invited testimony, but even those testifiers are not given time to provide detailed input. Discussion between City Council members and testifiers is relatively rare.

The time limitations of the community budget forums described above and political dynamics contributed to holding professionally facilitated evening forums that focused solely on utility bureau budgets

in March of 2014 and 2015 in Parkrose and NW Portland. Much of the discussion in 2014 focused on an upcoming ballot measure that would have removed the City Council from management of the utility bureaus and there was minimal public testimony at the March 2015 forum. In 2015, testimony was provided by the Public Utility Review Board and CUB but without the opportunity for details and discussion...

[This] recommendation can be considered a continued demonstration of City Council commitment for public input opportunities focused on the utility bureau budgets, but takes a more cost effective approach compared to the March 2014 and 2015 utility budget forums. It may seem inappropriate to only provide a dedicated time slot for utility bureau testimony, but it is an experimental approach that illustrates the City Council's commitment to public utility oversight albeit in a more time efficient and targeted manner. CUB and the PUB may testify during the utility segment of the community budget forums and such testimony could facilitate preparation for utility bureau budget work sessions and development of the Mayor's budget. CUB involvement in these community budget forums would likely emphasize input from CUB members.

This "ten minute window for utility budget comments" approach was used in the spring of 2016 for community budget forums held on April 5 and 12. CUB testified during the 10 minute window at each of those hearings last spring. There was no testimony from the PUB at those meetings. CUB recommends that this approach be taken in the spring of 2017 and would welcome PUB involvement at those sessions. Or if the PUB has other suggestions for providing public involvement opportunities focused on utilities in a cost and time effective manner, CUB would appreciate hearing them.