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To: Mayor Charlie Hales
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Steve Novick
Commissioner Dan Saltzman
Auditor LaVonne Griffin-Valade

Subject: 2013 Portland Utility Review Board – Annual Report

Date: October 18, 2013

Following below are updates from the three Portland Utility Review Board committees on the City's three public utility bureaus and program: the Bureau of Environmental Services, the Portland Water Bureau and the Solid Waste Program with the Bureau of Planning and Sustainability.

BUREAU OF ENVIRONMENTAL SERVICES COMMITTEE

Action: Review of the Bureau of Environmental Services FY 2013-14 Budget

In 2013 the PURB Bureau of Environmental Services (BES) committee reviewed the proposed FY2013-14 BES budget request and made the following recommendation, which was approved by the full PURB and recommended to City Council.

Result: The PURB adopted the Mayor's proposed budget of a 5.32% increase in the sewer rates. The following letter of our position was submitted:

The PURB approves the Mayor's proposed budget for the Bureau of Environmental Service.

The PURB appreciates the Mayor's efforts to reduce BES's budgeted costs. Three of the PURB's members participated with the BES Budget Advisory Committee (BAC). The BAC supported full add-back of BES's proposed budget cuts. The BAC, however, did prioritize which cuts should be made or added back in the event the Mayor and City Council decided to reduce BES's operating costs. The Mayor has followed the BAC's recommended weighting of these cuts in effectively reducing BES's FY 2013-14 annual budget.

The PURB also appreciates the Mayor's efforts to remove non-core operating costs from BES's budget and to preserve and place these costs into other bureaus

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that better identify with such expenditures. The PURB has long been a proponent of keeping non-core operating expenses out of the utility bureaus' budgets. The BAC included a comment in its letter to the Mayor and Council regarding the flow of money between bureaus. The PURB is pleased with the Mayor's efforts to begin this process in segregating each bureau's operating costs on a case-by-case and bureau-by-bureau basis.

Finally, the PURB reiterates the BAC's comment regarding keeping both the BAC and PURB engaged throughout the entire budget process. The citizen volunteers on the BAC and PURB donate considerable time working with the bureau's staff to understand the operating budget. We believe that the BAC and PURB can give valuable insight to the Council and the City throughout the entire budget process.

Action: PURB Participation in BES Committees

All three BES committee members participated on the Bureau's Budget Advisory Committee, which helped provide citizen input for the budget package the bureau presented to City Council. PURB members also participated on the Capital Improvement Program (CIP) Task Force and the Citizens' Advisory Committee for the Tryon Creek Wastewater Treatment Plant project.

PORTLAND WATER BUREAU COMMITTEE

Action: Review of the Portland Water Bureau FY 2013-14 Budget

In 2013 the PURB Portland Water Bureau (PWB) committee reviewed the proposed FY 2013-14 PWB budget request and made the following recommendation, which was approved by the full PURB and recommended to the City Council

Result: The PURB adopted the Mayor's proposed budget of a water rate increase of 3.6% for FY 2013-14.

Background: The PURB appreciates the Mayor's efforts to remove non-core operating costs from the PWB budget and reviewed the "add-ons" carefully. The active members of the water committee fully participated in the PWB's BAC process. These members were able to advise the entire PURB that the Mayor's final budget, which produced a proposed water rate increase of 3.6%, was in line with the PURB's longtime position that the utility bureaus' focus should be on providing their core services. It was also reported that specific reductions in bureau spending, proposed by the Mayor, are supported by the specific infrastructure changes produced by the LT2 compliance program.

Additional Issues

When the PURB Water committee issued its last annual report, five issues were highlighted as being important for future committee and/or PURB attention – Monthly Billing, Base Charges, LT2 Schedule Adjustments, Conservation Rate Study Participation, and Fluoridation.

PURB's attention to these items during the past year consisted of the following:

Monthly Billing – Received a report that the program is being implemented through an electronic bill-paying option only, with a soft rollout scheduled for October of this year. PURB also heard from CUB representatives that the lack of this billing format was a significant

component of the inquiries that organization receives about the City of Portland's utility operation.

Base Charge Issue – This issue arose from a Water Bureau Budget Advisory Committee recommendation that was the product of the monthly billing discussion. The proposal was formatted in a manner that would have produced a significant rate impact, in that it would have exacerbated base charge inequities in favor of residential ratepayers created by the City's modified "cost of service" base charge system. Changes in PWB personnel and the extreme demands of the City budgeting process for FY 2013-14 prevented the BAC from revisiting the issue in its deliberations, so no substantive discussion relative to this issue has yet occurred.

Adjusted Schedule for LT2 Requirements – The decision by the Oregon Health Authority to not permit any adjustment to the LT2 work program resolved this issue and eliminated any hope that CIP savings might be forthcoming from this source.

Conservation Rate Study Participation – PURB has not yet formally discussed the results of this study, which was completed in June 2013, although it might inform both the base charge discussion and CIP/Infrastructure discussions, as well as City economic development strategy. Unfortunately, the two members of PURB that participated in the study's citizen review committee have or shortly will be leaving the Board.

Fluoridation – Although PURB was not able to take a position on the issue because it was the subject of an initiative vote, it endeavored to provide the proponent and opponent of the proposal a forum in which they could express their views. PURB also expressed its collective concern that the process that produced the initiative also would have impacted the City's wholesale customers without giving them an opportunity to express an opinion on the issue. The PURB water committee is also concerned about declining consumption, the fixed-cost water system, and the impact this may have on rates.

SOLID WASTE PROGRAM COMMITTEE

The purview of the PURB's Solid Waste Program review is limited to residential garbage and recycling rates. The following positions and actions were taken by the PURB last year.

Action: Franchise Agreement Mid-Term Review

The PURB participated in the mid-term review of the Franchise Agreement between the City and various solid waste haulers. Participation was recommended by PURB in 2012 and agreed to by Council.

Result: The PURB: (a) provided input on the status and various terms of the Franchise Agreement; (b) secured an earlier due date for franchisee Detailed Cost Reports; and (c) established substantive and timing requirements for the provision of rate promulgation data by the Bureau of Planning and Sustainability (BPS) to the PURB so it could make timely solid waste and recycling rate recommendations to Council.

Action: PURB Review of Solid Waste Rates and Recommendations to Council

As a result of the PURB's 2012 Recommendations to Council and the PURB's participation in the

Franchise Agreement Mid-Term Review, the BPS delivered timely information regarding proposed solid waste and recycling rate changes. Unlike previous years, the PURB had sufficient time to make comprehensive recommendations to Council. The PURB recommended the following:

1. that Council adopt the proposed solid waste and recycling rate decrease of about 1% for FY 2013-14; and
2. that Council keep incentives and disincentives for residential customers, but adopt a revised incentive structure proposed by BPS, in order to:
 - a. apportion lower garbage and recycling rates to residents who generate less garbage;
 - b. apportion higher garbage and recycling rates to residents who generate more garbage; and,
 - c. promote worker safety by dis-incentivizing the use of can containers.

Result: Council adopted the proposed rates and adopted the revised incentive structure proposed by BPS.

ACTIVITIES AND RECOMMENDATIONS

In January, 2013 the PURB held its 2nd annual retreat. The PURB reviewed its role in light of its operating Charter and Bylaws and discussed a work plan for the coming year. This year's goals included enhanced public outreach, an updated website and position papers on utility rates and related subjects.

A new web page for the PURB has been designed and is ready to go online as soon as City technology allows. Substantive changes will be implemented once the site is live.

Key Issues

The PURB heard testimony from both sides of the fluoride debate. No position by the PURB was taken because the PURB is prohibited from commenting on issues that are the subject of an upcoming ballot referendum.

The PURB also heard a presentation from Bob Jenks and Jeff Bissonette of the Citizens Utility Board (CUB) regarding a possible partnership between the CUB and the City. The general idea is for the CUB to act as an independent watchdog of proposed utility rates and advocate for least-cost planning. Whether the PURB will take a position on this plan (once it's fully developed and under consideration by Council) is still to be decided.

Other possible topics, still to be discussed, are Portland Water Bureau tours of the Bull Run Watershed and the transfer of oversight of City water and sewer utilities to an independently elected board. The latter proposition is the subject of a recently filed ballot initiative effort. If the initiative qualifies as a ballot referendum, the PURB would be barred from taking a position.

Briefings

The PURB is updated monthly on utility bureau rate decisions, BAC meetings and projected rate

impacts. In addition to utility budget briefings, the PURB heard presentations from BPS on solid waste rate incentives and disincentives, the possible closure of the Recology processing center to residential food scraps and the City's Comprehensive Plan. It heard from BES on the Stephens Creek Stormwater System Plan and from the PWB on the process for collection of delinquent utility accounts, the recent sale of the Portland "Water House" and the City's participation in the cleanup of the cryptosporidium outbreak in Baker City, OR. It also heard from Jonas Biery, the City's Debt Manager, who provided an overview of how the City uses debt to finance projects.

Field Trips

In July, a group of PURB members toured the Powell Butte Reservoir Project now nearing completion. The construction of the 50 million gallon reservoir was part of the City's response to the closing of the City's open reservoirs that will be disconnected from the water system because of Long Term 2 (LT2) Enhanced Surface Water Treatment requirements.

Recommendation: Enhancing Utility Rate Spending Transparency

In response to a FY 2011-12 budget note generated by a recommendation of the PURB, the Portland Water Bureau now produces an annual report that clarifies data about capital improvement projects costing more than \$500,000 – the CIPAR (or CIP Annual Report). The report includes the criteria used to elevate a project to a CIP, non-bureau revenue sources for a CIP and when a CIP appears in a budget for the first time. For purposes of increased transparency and uniformity among utility bureaus, the PURB recommends the BES adopt and use the CIP Annual Report format presently in use by the Portland Water Bureau.

Recommendation: Improving the process for sale of surplus parcels owned by utility bureaus

The PURB was informed by the Portland Water Bureau about the sale of a parcel of land it owns in SW Portland (the Freeman Tank parcel). It also heard comments from the public about the sale of that parcel. In response to the information and comments, the PURB recommends public notice regarding the disposal of surplus property owned by the utility bureaus be improved. Suggestions for improving public notice about the sale of these properties include:

- An initial determination that no other city bureau is interested in acquiring the property;
- Inquiries as to whether the county in which the property is located, METRO or the State of Oregon has an interest in acquiring the property;
- A posting of "Available Surplus Property" on the PWB, BES or city-wide website;
- A "Notice of Intent to Dispose of Property" sign posted on the property for a fixed period of time. The sign would include reference to the relevant city website;
- Once the posting has occurred, a regular "For Sale" sign on the property including the real estate agent information.