



CITY OF PORTLAND

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To: Mayor Sam Adams
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Randy Leonard
Commissioner Dan Saltzman
Auditor LaVonne Griffin-Valade

Subject: Final Draft - PURB FY 2010-11 Annual Report

Date: October 7, 2011

PURB Water and Sewer Committee Activities/Issues

Issue No. 1 - Cost of Service Principles

PURB Position/ Actions - Since 2006 the PURB has been concerned that certain costs embedded in the rates of BES and PWB do not comply with basic Cost of Service Principles. That is to say that these costs are not “central and integral” to providing the particular utility service.

The Water Committee in 2010 recommended as part of its FY'11 Budget review for BES and PWB that the “the City Auditor’s Office consider undertaking an audit of BES & PWB spending trends to determine the financial extent and purposes of any spending unrelated to the delivery of utility services to rate paying customers.”

Results - In March of 2011 the Office of the Auditor issued a report entitled “*Spending Utility Ratepayer Money: Not always linked to services, decision process inconsistent (#398)*”. The report uncovered several instances of bureau expenditures that were not directly related to services as well some that were not in the bureau budget request nor in the Council adopted budget. The audit report made three recommendations to Council the statuses of which are not known by PURB. But in a related matter the Council directed OMF in its adopted FY'12 Budget to develop a Citywide financial policy outlining guidelines for what should and should not be included in the rates of rate-dependent City bureaus, with a particular focus on the Portland Water Bureau and Bureau of Environmental Services rates.

An Equal Opportunity Employer

To help ensure equal access to programs, services and activities, the Office of Management & Finance will reasonably modify policies/procedures and provide auxiliary aids/services to persons with disabilities upon request.

Issue No. 2 – Rate Approval Process Oversight

PURB Position /Actions – As part of its budget review for PWB the Water Committee expressed its concern with an apparent lack of oversight in terms of checks and balances in the yearly rate approval process. As a result in 2010 it recommended that a consultant be hired to report back on best practices for the approval process on public utility rate setting and to make recommendations for Portland.

Results – In a joint effort managed and funded by BES and PWB with PURB involvement, Red Oak Consulting was engaged to identify “Best Practices” regarding the approval process for setting municipal sewer, storm water, and water utility budgets and rates. In June 2011 they presented their findings in a final report which also made recommendations for the City of Portland. Their survey included eleven public utilities. One of its recommendations was that the City should formally modify the process to require PURB review and input regarding all material changes to the budget. As part of the adopted FY’12 Budget the City directed OMF to work with the Portland Water Bureau, Bureau of Environmental Services, and the Bureau of Planning and Sustainability, to develop a process for the members of the Portland Utility Review Board to review mid-year budget monitoring process (BuMP) changes.

Issue No. 3 - Capital Improvement Program Document - Public Transparency and Accountability

PURB Position/Actions - As part of its FY’12 Budget review the Water Committee concluded that the PWB Capital Improvement Program (CIP) document furnished to the BAC, PURB and the public need more transparency and accountability to permit a meaningful oversight review and improve public confidence. PURB endorsed a recommendation to the Council to create a task force, review the current PWB and BES CIP documents and make recommendations to improve its transparency and accountability. Examples from other public utilities CIPs which embodied these attributes were provided.

Results – In the adopted FY’12 Budget the Council directed the Office of Management and Finance to establish a taskforce to review the Portland Water Bureau (PWB) and Bureau of Environmental Services (BES) Capital Improvement Project (CIP) budget documents and processes. The taskforce will generate recommendations to improve the public transparency and accountability of the CIP documents and process. The OMF has organized such a task force and has scheduled meetings to meet the November deadline. Additionally the PWB on its own initiative has recently released for PURB review a “Proposed New PWB CIP Annual Report” which makes great strides in public transparency and accountability.

Issue No. 4 - Deferred Rate Increases – Public Transparency

PURB Position/Actions - As part of its FY’12 Budget review, the Water Committee found deferred rate increases accounted for approximately 45% of the proposed rates increases for a 4-year period. Ratepayers need more transparency to understand the consequences of rate deferral on future utility rates. The PURB endorsed a recommendation to Council to create an internal process correlating rate deferral and service level impacts. This process would include developing a working definition of “deferred rate increase.”

Results – None to date.

PURB Solid Waste Committee Activities/Issues

Issue No. 5: PURB Review of Solid Waste Rates – Timeliness

PURB Position/Actions – The purview of the PURB and solid waste recycling rates review is limited to *residential* garbage and recycling rates. The PURB was unable to make recommendations to Council about FY'12 rate increases, including increases due to the Food Scrap Recycling Program, because it didn't get information in time. After this year's budget was adopted, the Solid Waste Committee reviewed the current hauler Franchise Agreement and met several times with BPS leadership. The PURB subsequently endorsed the following recommendations:

- Include the PURB Solid Waste Committee in the Franchise Agreement mid-term review scheduled to start in May, 2012.
- Revise the hauler Franchise Agreement so that hauler Annual Reports are due earlier, thereby increasing the likelihood of a timely, substantive review of proposed rates by the PURB.
- Have BPS personnel submit their proposed solid waste *budget* ordinance to the PURB earlier, and separately, from its proposed solid waste *rate* ordinance. This would enable the PURB to make recommendations regarding the solid waste budget in a timely manner. The solid waste rate ordinance could be reviewed by the PURB at a later time and its recommendations submitted during the budget monitoring process (BuMPs).

General PURB Issues

Issue No. 6: Understanding utility rates and the PURB – Public Outreach

PURB Position – The average ratepayer knows very little about why his utility bills increase and less about the PURB. Ratepayers should be able to contact someone who can listen to their complaints or suggestions and help them find answers to questions about rates and how rates are determined. Thanks to its liberal access to utility bureau personnel, the PURB is ideally suited to act as a liaison between ratepayers and the City. To enhance public outreach, the PURB recommends:

- Improving the PURB website;
- Increasing ratepayer awareness of the PURB.

Issue No. 7: An Independent Utility Commission

PURB Position - The PURB unanimously supports Commissioner Saltzman's intent to bolster public confidence in the rate-setting process for the City's water and sewer utilities. However, it does not endorse the Commissioner's proposed IUC in its present form. The Board raised a number of concerns during its review of the IUC proposal and would be happy to offer additional suggestions for its improvement and/or alternatives to the proposed IUC concept.