Analysis By: Ryan Kinsella

PORTLAND WATER BUREAU

All Funds Budget Summary	Adopted FY 2014-15	Request Base FY 2015-16	Decision Pkgs FY 2015-16	Request Total FY 2015-16	Percent Change
Resources					
Budgeted Beginning Fund Balance	$150,499,726	$184,911,206	$0	$184,911,206	22.9%
Charges for Services	147,335,324	157,219,177	0	157,219,177	6.7%
Intergovernmental Revenues	526,000	526,000	0	526,000	0.0%
Interagency Revenue	3,034,728	3,127,486	0	3,127,486	3.1%
Fund Transfers - Revenue	192,774,398	168,302,114	0	168,302,114	-12.7%
Bond and Note Proceeds	119,714,000		0	0	-100.0%
Miscellaneous Sources	5,636,092	2,998,594	0	2,998,594	-46.8%
Total Resources	**$619,520,268**	**$517,084,577**	**$0**	**$517,084,577**	**-16.5%**
Expenditures					
Personnel Services	$61,437,456	$64,770,569	$45,828	$64,816,397	5.5%
External Materials and Services	24,233,930	29,585,384	0	29,585,384	22.1%
Internal Materials and Services	19,217,492	19,650,188	100,209	19,750,397	2.8%
Capital Outlay	72,669,385	39,163,000	0	39,163,000	-46.1%
Debt Service	57,015,823	56,631,137	0	56,631,137	-0.7%
Fund Transfers - Expense	198,331,621	174,529,241	0	174,529,241	-12.0%
Contingency	73,591,222	79,289,733	(146,037)	79,143,696	7.5%
Unappropriated Fund Balance	113,023,339	53,465,325	0	53,465,325	-52.7%
Total Requirements	**$619,520,268**	**$517,084,577**	**$0**	**$517,084,577**	**-16.5%**
Total Bureau FTE	**566.35**	**566.35**	**0.50**	**566.85**	**0.1%**

Percent Change is the change from FY 2014-15 Adopted Budget to FY 2015-16 Total Requested Budget.

Key Issues

FY 2015-16 Budget and Rates

The Portland Water Bureau has requested, as part of their FY 2015-16 budget, rate requirements that are equivalent to a 7.00% increase for the typical single family household. This amounts to an increase of roughly $2.07 on the monthly bill for the typical household for a total typical monthly bill of $31.61. Combined with the Bureau of Environmental Services requested rate increase, the typical family would experience a 4.8% increase on their bill.

Outlined below are the forecasted rate increases and expected typical monthly bill as projected at the time of the requested budget.

TABLE 1: Forecasted Rate Increases	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Escalation Factors	3.6%	2.0%	3.2%	3.1%	3.6%
FY 2013-14 Year End Balances	-1.1%	-0.5%			
Lower Retail Demand	1.4%				
Wholesale & Other Revenues Updates	-1.6%	3.1%	0.9%		
Operating Budget	0.2%				
Capital Program	6.6%	11.8%	8.9%	7.4%	3.9%
Rate Stabilization Account	-2.1%	-7.0%	-3.6%	-3.2%	-0.2%
FY 2015-16 Forecasted Rate	**7.0%**	**9.4%**	**9.4%**	**7.3%**	**7.3%**
Forecasted Typical Retail Water Bill (per month; 5 ccf/month)	$31.61	$34.58	$37.83	$40.59	$43.55

As indicated in the table, the bureau forecasts continued rate increases over the next five years, resulting in a 47.5% increase over this period. At forecasted rates the typical retail customer will pay $43.55/month in FY 2019-20. Rate increases are primarily driven by five factors:

- **Escalation factors.** To provide the same level of service, escalation factors require a rate increase of 3.6% in FY 2015-16. These escalation factors include a melded inflation (materials and other utility cost increases) in addition to increases in personnel costs (PERS and health costs), and lower interest earnings.
- **Capital Program.** The bureau's capital plan continues to be the primary driver of rate increases through FY 2018-19. Regular bond issuances are scheduled every two years to cover capital costs; debt service for the bonds are financed through rate increases. Additionally, the bureau has also removed or delayed projects in its Five-Year Capital plan that have provided a rate benefit in outyears. This topic is discussed at length below.
- **Wholesale contracts.** The bureau does not project significant changes to wholesale contract revenues, except for in FY 2016-17, when the City of Tigard is expected to terminate its contract.
- **Rate Stabilization Account**. To smooth rate increases, the bureau draws upon a rate stabilization account, which will have $24.4 million available. The bureau will draw upon this balance over the next five years so as to lessen the forecasted increases.
- **Other adjustments.** Prior year operating savings and underspending on projects provide some rate benefit in the subsequent year;

  Adjustments to the assumed bond interest rate have resulted in a rate benefit of 2-3% less than forecasted interest rates in recent years. Forecasted retail water rates assume a bond interest rate of 6.0% whereas recent bond sales have been at 3.22% true interest cost (TIC) in 2013 for a second lien bond of $253.6 million that includes $150 million in refunding and 2.92% TIC in 2012 for a first lien bond of $76.5 million. The requested retail water rate also reflects the actual bond interest rate of 3.2% TIC for the recent bond sale in December 2014, which contributed to the lessening of the FY 2015-16 forecasted rate increase from 11.3% in last year's financial plan to the requested rate increase of 7.0%.

As noted in prior CBO analyses, CBO recommends that current operating and capital budget decisions be considered in the context of future rate requirements, as several rate drivers span multiple years, particularly CIP requirements. To that end, CBO recommends a regular, quarterly meeting between the Commissioner-in-Charge, bureau leadership, OMF - Debt Management, the City Budget Office, and the newly created Portland Utility Board. The purpose of this meeting would be to collectively and iteratively develop a shared understanding and consensus about the long-term rate forecast and the operational and asset management tradeoffs associated with potential changes to that forecast. Such a regular meeting would help to ensure that the decisions about the long-term stewardship – and the long-term impacts of stewardship decisions – are made explicitly, transparently, and in a way that maintains fiscal and operational stability within the constraints of household affordability.

Forecasted Rate Changes

City financial policy (FIN 2.03) encourages bureaus to minimize risks by conservatively forecasting revenues, reasonably estimating risks, and using forecast bond rates provided by the Office of Management and Finance's Public Finance and Treasury division. This conservative approach to financial planning often results in requested retail rate increases being less than previously forecasted.

The table below illustrates how forecasted rates have varied from actual rates over the past years.

Table 2: Changes to Forecasted Water Rates	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Initial Rate Forecast (Five years prior to adoption)	19.0%	19.0%	13.7%	13.5%	7.7%	8.0%
Prior Year Forecasted Rate	14.3%	10.5%	14.4%	11.3%	9.4%	
Requested Rate	11.0%	7.8%	7.0%	7.0%		
Adopted Rate	7.6%	3.6%	7.0%			

For various reasons there are changes between initial, prior year, requested, and adopted rates:

- Changes between initial rate forecasts (line 1) and prior year forecasted rates (line 2) reflect broader changes to the capital plan and other operational adjustments. The bureau first develops the initial rate forecasts five years prior; for example, the bureau initially forecasted the FY 2012-13 rate as part of its FY 2009-10 five-year financial plan. The bureau anticipated a much larger five-year capital plan in FY 2009-10, driven by expected costs to comply with the LT2 requirements, which included the costs of a filtration plant that was later removed.

- Changes between the prior year forecasted rate (line 2) and the requested rates (line 3) reflect changes in financial assumptions, including anticipated bond interest rates, in addition to any prior year savings from operating and capital underspending. For example, the bureau's requested rate decreased by 4.3% since last year's forecast due to the following:
    - Prior year underspending decreased the requested rate by 2.6%

    - Updating the expected bond interest rate from 5.25% to 3.2% resulted in a 1.8% retail rate benefit
    - Decreasing the expected inflationary factors resulted in a rate benefit of 0.4%
    - Increasing the expected rates by an additional 0.6% due to a forecasted decline in retail demand.
- Changes between requested rates (line 3) and adopted rates (line 4) are driven by the approval of decision packages in final updates to inflationary factors and General Fund overhead rates. Reductions to the bureau's operating budget decreased the rates in FY 2012-13 and FY 2013-14.

This table is included not to show that out-year rates will always be lower than currently forecast, but to illustrate that conservative financial planning has the benefit of minimizing risk, and at times, providing a rate benefit as compared to the initial forecast. The table also suggests that there is value in addressing rate requirements each year rather than adopting two- or five-year rates. By adopting rates each year, the bureau is able to fully capture any prior year savings and adjust assumptions as required.

Current Five-Year Capital Improvement Plan

The bureau is currently forecasting $485.0 million in capital expenditures (including bureau overhead costs) over the next five years, including $397 million in direct capital project spending. The bureau estimates that 43% of the FY 2015-20 CIP will be funded through cash resources, whereas approximately 57% will be funded through bond proceeds. As a result, debt service will increase from $50 million in FY 2014-15 to an estimated $71.0 million in FY 2019-20. Currently, the annual debt service to water sales ratio is 35%, up from five years ago when the ratio was 21%. The bureau projects this ratio to remain at 35% over the next five years based on the estimated debt requirements to fund the capital plan and forecasted water sale revenues.

Table 3: Capital Financing (below) outlines forecasted capital requirements (including both direct and indirect capital costs), the corresponding rate increase, and the type of resources used to finance the capital plan.

TABLE 3: Capital Financing	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	Total
Total Forecasted Capital Spending	$81.1	$91.0	$124.9	$89.9	$98.0	$485.0
Rate Impact of Capital Spending	6.6%	11.8%	8.9%	7.4%	3.9%	
Capital Financing (millions)						
Capital Revenues	$9.0	$9.5	$10.0	$10.3	$10.6	$49.3
Debt	42.1	52.9	84.4	45.8	52.2	277.3
Cash and Interest	30.1	28.7	30.5	33.8	35.2	158.3
Total	**$81.1**	**$91.0**	**$124.9**	**$89.9**	**$98.0**	**$485.0**

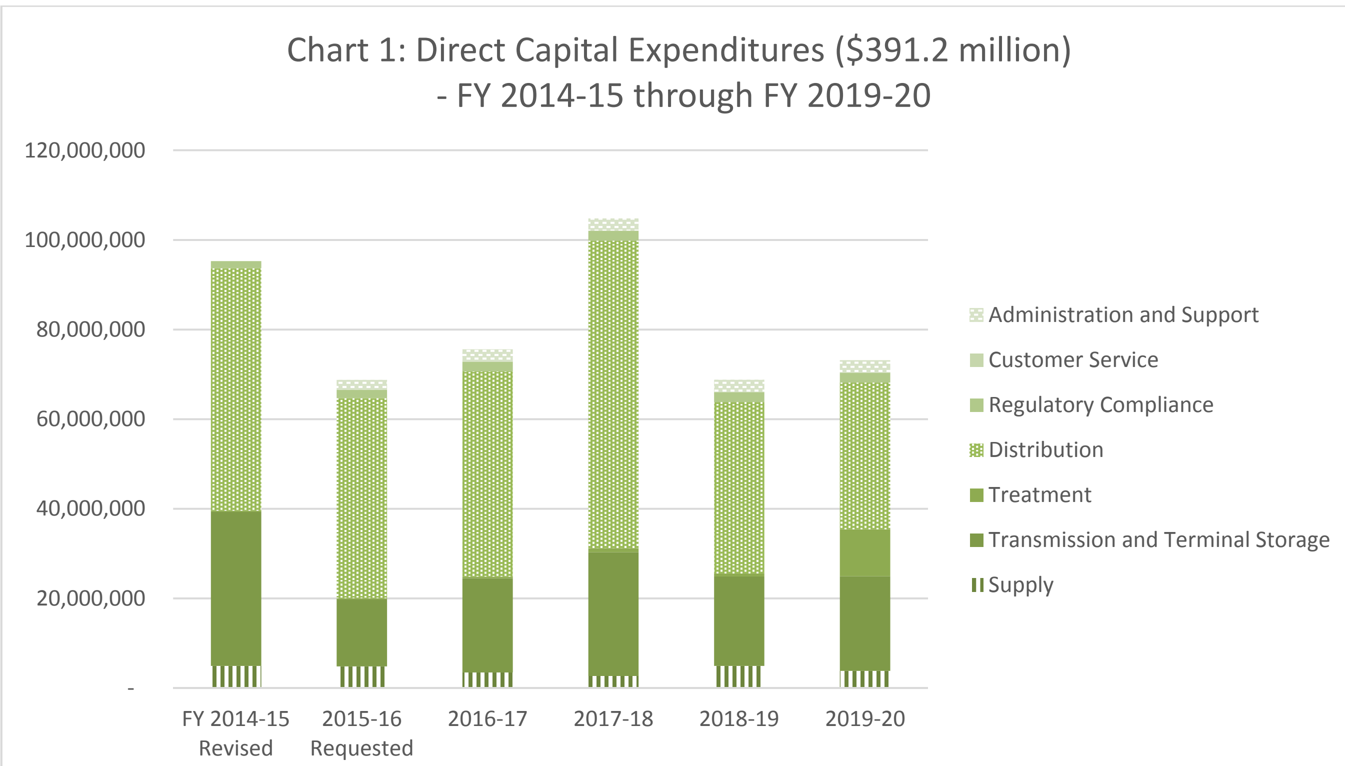
Cash. Cash available to finance capital comes from three primary sources: water sales revenues (retail and wholesale), prior year underspending, and fund balance and interest on fund balances. Approximately

47% of retail revenues go towards operations, 20% towards cash financing capital and 33% towards debt service (that pays for capital).

Debt. Approximately 60% of the capital plan has been financed through debt by the issuance of first and second lien bonds. The proceeds from the bonds are generally used to pay for two years of capital requirements. The repayment of these bonds are typically financed over a 25 year period.

Capital Revenues. The bureau also collects capital revenues via system development charges, new services/mains, IA revenues and asset sales. New services account for approximately 55% of capital revenues, but pay for the cost of system expansion and do not contribute toward general system repair and replacement.

For broad context of how capital spending has changed, the chart below shows prior year actual and estimated future year expenditures.



The chart illustrates four key points of the bureau's planned capital spending:

- Increases in FY 2018-19 in Supply are due to increased spending on road improvements within the Bull Run Watershed. The overall increase in Transmission and Terminal Storage is due to beginning and increasing conduit rehabilitation work.
- Within the Distribution program, there is an overall decrease in pump stations expenditures due to the scheduled completion of the Fulton Pump Station in FY 2016-17.
- Increases in the Distribution program in FY 2017-18 are due to the scheduled construction of the Willamette River Pipe Crossing.

- Distribution program costs will continue to be the largest capital expense in future years, as the FY 2015-20 CIP invests in pipes, pump stations, storage tanks, hydrants, meters, and valves that make up the City's water distribution system – the bureau's primary "aging infrastructure." The Distribution program's five-year capital costs are expected to be $230.0 million including the $56 million Willamette River Pipe Crossing project. Over the next five years, 59% of capital spending will be in Distribution.

Compared to last year's requested CIP, there are several significant changes resulting in a net increase of $22.5 million. At the direction of the Commissioner-in-Charge, the bureau reduced its FY 2014-15 capital plan by $14.1 million and $32.6 million over five years, including reductions of $29.3 million in Transmissions and Terminal Storage and reductions of $10.8 million in the Regulatory Compliance capital program.

Comparing the four common years of the FY 2014-19 CIP to the FY 2015-20 CIP, the bureau has made a number of adjustments, as outlined in the table below:

TABLE 4: Changes in CIP FY 2014-19 to FY 2015-20

	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	4-Year Total
Supply	1,728,000	81,000	93,000	1,282,000	3,184,000
Transmission and Terminal Storage	1,303,000	1,040,000	365,000	468,000	3,176,000
Treatment	276,000	353,000	943,000	670,000	2,242,000
Distribution	(1,961,000)	(3,175,000)	10,479,000	7,089,000	12,432,000
Regulatory Compliance	89,000	104,000	624,000	104,000	921,000
Customer Service	3,000	3,000	3,000	3,000	12,000
Administration and Support	104,000	130,000	130,000	130,000	494,000
Total	**1,542,000**	**(1,464,000)**	**12,637,000**	**9,746,000**	**22,461,000**

As shown in the table, significant increases were made to the distribution program, totaling $12.4 million, due to the planned construction of the Willamette River Pipe Crossing. Significant construction costs are scheduled to begin in FY 2016-17 and peak in FY 2017-18 – a year earlier than originally planned.
Six projects greater than $500,000 are new to the CIP, all of which will have budget expenses in FY 2015-16:

Distribution

- Replace tank roof at Council Crest - $700,000
- Pump station (Greenleaf) near forest Park - $1,710,000
- Pump station improvements (Verde Vista) in the northwest hills service area - $1,040,000
- Main replacement in SW Portland (SW Flower Terrace and Dosch) - $550,000
- Replace meter vault for the Rockwood PUD - $530,000

Supply

- Road improvement within the Bull Run Watershed - $822,000

Council should anticipate hearing ordinances to approve contracts for the following projects in FY 2015-16:

Project	Estimated Contract Date	Project Total
Headworks Generator Improvements	September 2015	$1,670,000
Rockwood PUD Meter	November 2015	$530,000
Washington Park	November 2015	$75,780,000
Cornell Road Services	January 2016	$830,000
Road 10 Milepost 4.6-6.2	March 2016	$1,280,000
Road 10 Milepost 3.0-4.6	June 2016	$1,120,000

Of these contracts, the Washington Park Reservoir 3 project will be by far the largest. The bureau plans for $4.9 million in project spending in FY 2015-16 with significant spending expected to occur in FY 2016-17 through FY 2018-19. The bureau has spent $6.7 million through FY 2013-14 and total project costs are estimated at $76.3 million.

In addition to these contracts, the bureau is preparing an owner's representative contract for the Willamette River Pipe Crossing project. The winning bidder will provide the bureau with technical expertise on developing the RFP for the design-build process and provide quality assurance throughout the duration of this project. The Willamette River Pipe Crossing has an estimated total cost of $56.1 million. The bureau has budgeted $380,000 for this project in FY 2014-15 and $2.0 million in FY 2015-16, with major expenditures beginning in FY 2016-17 when the bureau has capacity for new construction projects.

Correspondingly, Council should also anticipate a bond sale of approximately $146.1 million in fall of 2016 that will provide portions of funding for the FY 2016-17 through the FY 2017-18 CIP.

Risks to Five-Year Financial Plan

The current five-year financial plan includes some risks, which the bureau has highlighted in prior presentations to Council and budget advisory committees.

- *Regulatory Changes*. Among these risks are potential regulatory changes, similar to the EPA's directives on LT2 requirements. Possible changes are uncertain, and as such, the bureau has not adjusted its CIP to reflect potential impacts. Possible changes include the regulation regarding emerging contaminants in drinking water, and, depending upon developing research and studies, there is not a timeline for when or if the EPA would implement these directives.

  The bureau is also tracking potential regulatory changes regarding the Lead and Copper Rule, the regulation of tank cleaning, and the establishment of a Maximum Contaminant Level for radon in ground water. Any of the changes would have varying financial impacts, depending upon how much of the bureau's infrastructure or operations would need to be altered; the impact would likely be substantially less than complying with the LT2 rule.

- *LT2 Variance.* Also worth noting is that the bureau has received its LT2 variance through 2021, contingent that there no cryptosporidium detections during that period. Changes to the variance beyond 2021 are not expected; however, if the variance is discontinued, there is risk that the bureau would need to build a costly treatment facility.

- *Decreased demand.* Over the past decade the bureau has experienced a steady decrease in water sales due to efficiencies from plumbing code revisions and consumer conservation efforts. Since FY 2004-05, actual water demand has been less than forecasted, leading the bureau to incorporate the impact of this trend into revenue projections. Last year retail sales were 3.6% lower than budgeted – or $4.7 million. The requested rate increase of 7.0% includes an additional 0.6% increase due to decreasing forecasted demand. The bureau forecasts that demand will stabilize around 25.1 million CCF in the next fiscal year, and forecasted five-year rates do not include an adjustment for decreased demand.

The bureau continues to monitor these potential risks.

Key Performance Measures

Bureaus developed key performance measures as part of the FY 2015-16 budget process. These measures were intended to quantify outcomes of core services and key strategic initiatives; bureaus were also asked to develop measures that were understandable, results-oriented, selective, useful, reliable, and comparable. The bureau's measures track water quality and environmental impact, bureau finances, maintenance water system infrastructure and water service, and customer service. Highlighted below are trends in bureau performance, and due to concerns about the usefulness of the measures for decision-making, also included are suggested alternative measures for which CBO recommends further consideration.

Water Quality and Environmental impact	**Number of violations of state and federal drinking water quality regulations**. Measuring regulatory compliance has been adopted as an industry standard; however, Council may find that other measures – particularly those that track the integrity of the distribution system and protection of water sources – are more effective for managing the bureau's ability to provide safe water in the future. *Bureau Impact:* The bureau sets targets of zero violations of state or federal drinking water standards; in FY 2013-14, the bureau had one violation of drinking water quality standards. The State of Oregon's Maximum Contaminant Level (MCL) rule was violated in September 2013, due to total coliforms being detected in 5% of samples. As a result, a Tier 2 public notice was issued, impacting the quality of water to a small portion of SW Portland. There are several possible reasons for why the detection occurred; one possible explanation is higher temperatures, resulting from water remaining in the

system for longer periods than planned, allowed for coliform growth. The specific cause is unknown.

Number of violations of state and federal environmental regulations. The bureau is tasked with protecting Portland's water supply while also being responsible stewards of the environment. As such, the bureau tracks the number of violations of state and federal environmental regulations.

Bureau Impact:
The bureau sets targets of zero violations of environmental regulations; in FY 2013-14, the bureau had two violations of environmental regulations. The bureau violated Oregon's Removal-Fill Law as a result of construction of a boat ramp at Dodge Park without the necessary permit. The Clean Water Act was also violated for stormwater discharge at the Powell Butte Reservoir project. The federal Clean Water Act requires that cities must obtain a permit if discharging wastewater or stormwater directly from a point source (a discrete conveyance such as a pipe) into a body of water (such as a lake, river, or ocean).

Bureau Finances

Maintain revenue bond credit rating. The Portland Water Bureau has adopted its bond rating as a measure of fiscal stewardship and efficient use of public resources. Bond ratings include various factors of financial risk (coverage ratios, debt ratio, reserves, operating and environmental risk) and serve as an overall proxy for a utility's financial position.

Bureau Impact:
The bureau has maintained a Aaa rating on first lien bonds since the 2010 bond issuances when Moody's recalibrated their rating system. Bond ratings capture overall financial resiliency but do not provide Council with an indicator of whether the bureau efficiently uses its resources.

<u>Suggested Alternatives:</u>
Debt Coverage Ratio. Debt coverage ratios is a calculation of the amount of gross revenues, less operating expenses, relative to annual debt service obligations. The ratio provides an indicator of the amount by which net revenues exceed the minimum amount required to cover annual expenses, including debt service. Rating agencies and bond investors use the ratios to assess the bureau's ability to service debt, and as such, high coverage ratios improve the bureau's credit rating. As debt service proportionally increases, the bureau will need to collect greater revenues in order to achieve targeted ratios, resulting in a greater proportion of the capital program being cash financed with net revenues.

The bureau exceeded its debt service coverage ratio target in FY 2013-14. The debt coverage ratio on first lien bonds was 3.12, and the ratio for both first and second lien bonds was 1.81; the average of AWWA respondents was 2.20 (1.45 median). The bureau regularly achieves a relatively high combined debt coverage ratio for its first and second lien bonds.

Water Bill Affordability. EPA standards are that the water bill should be less than 2.0% of median household income. The Portland median household income for a family of four in 2014 was $5,783 per month. The requested monthly bill of $31.61 would represent 0.5% of the monthly income.

Percent of O&M costs for water supply and treatment. The benefits of the City's water source are reflected in efficiency measures: Portland's gravity-fed system that requires no treatment significantly reduces operations and maintenance costs. In FY 2013-14, approximately 8% of O&M costs were for supply and treatment; on average, 50% of costs were for supply and treatment of AWWA respondents. These benefits are also reflected in the operation costs per account; the average operational costs per account for a Portland Water Bureau customer is $417, whereas the national average is $522 per account. Other factors that explain differences in per customer O&M costs include the quality and frequency of maintenance and the expectations of the community.

Maintenance of Water System Infrastructure and Water Service

Percent of identified high-risk assets that are addressed. The bureau identifies high risk assets through planning studies and asset management plans. High-risk assets are considered addressed when the bureau: (1) confirms and updates whether the likelihood of failure is within an acceptable range , (2) the Engineering division begins a planning-design-construction sequence, or (3) the bureau immediately begins addressing repairs/replacement through maintenance and construction.

Bureau Impact:
The bureau reports that 95% of identified, high-risk assets are being addressed or have been addressed.

Number of unplanned events leading to customers out of water for more than eight hours
There are very few unplanned disruptions in the water system, especially those that exceed eight hours, and crews are able to maintain water service during most pipe repairs. In the past two years, the number of planned disruptions has increased due to an increased number of system upgrades, which require a service disruption.

Bureau Impact:
The bureau identified one unplanned event that resulted in a disruption of water service for more than eight hours in FY 2012-13 and two events in FY 2013-14. In 2013, the

bureau estimated that there were seven planned disruptions that left customers without water service between 4-12 hours; however, the bureau notes that the accuracy of historical data of disruptions is inconsistent

The bureau is currently improving how it tracks disruptions, eventually allowing them to more accurately track: (1) number of disruptions that are less than four hours, (2) the number of disruptions between 4-12 hours, (3) the average time of unplanned disruptions, (4) the total number of planned and unplanned disruptions, and (5) leaks/breaks per 100 miles of pipe.

<u>Suggested Alternatives:</u>
Other asset managing bureaus measure the quality of bureau assets and effectiveness of managing these assets by using various metrics:

- Percent of planned maintenance compared to total maintenance (AWWA survey)
- Percent of deficient assets compared to total asset value (Portland Parks and Recreation)
- Rate of replacement of transmission and distribution (Portland currently replaces these two categories of assets at a rate of 3.8% per year, based on budgeted amounts. The average of AWWA respondents was 3.0%.)
- Number of unplanned disruptions of water service per 1,000 customers (AWWA survey and currently being track on the Mayor's performance dashboard)

Which of these measures would be most appropriate for the Water Bureau would depend upon costs associated with tracking the measure and whether iterations of the measure more accurately track the maintenance of assets.

Customer Service

Average time that customers are on hold before speaking to a customer service representative. The bureau currently tracks customer hold times, which is considered a standard measure in the industry; however, this measure provides little insight into whether customers are satisfied with their water service.

<u>Suggested Alternatives:</u>
Number of water quality complaints per 1000 customers. After achieving approximately six complaints per 1,000 customers in FY 2008-09, the number complaints increased to seven complaints per 1,000 customers in FY 2012-13. Like the average hold time measure, however, this measure tracks a narrow aspect of customer service: only customer who have concerns about water quality.

Residents rating of overall water service as "good" or "very good." Perceived quality of water service indicates not only actual water quality but how well the bureau provides the service to the community. In 2014, 70% of residents rated their water service as "good" or "very good" – a four-year low following a high of 77% in 2010. The bureau has received negative press in recent years due to rate increases, the lawsuit filed against the

City, and the recent ballot initiative to remove water, sewer and stormwater utilities from the City's jurisdiction. Recent efforts of the Blue Ribbon Commission may improve public perception as the bureau and City adopt a series of recommendations intended to improve public oversight. Additionally, the Commissioner-in-Charge recently tasked the bureau to develop a communication strategy, intending to better communicate bureau services and value.

The bureau's measures, as currently drafted, provide Council and the public with information indicating whether they have a minimum threshold of service and accurately reflect the bureau's core services and the significant components of the bureau's mission. However, one characteristic of a key performance measure is that the measure is useful for decision-making. The current measures, while providing critical indicators of bureau services, are unlikely to vary year to year. In this sense, it would be difficult for Council to use the measures to inform policy or budget decisions.

The bureau has embarked on various internal performance initiatives in the past ten years. Moreover, the bureau participates in the AWWA annual survey. As part of the survey, the AWWA solicits responses from 124 water and wastewater utilities throughout the country. The measures included in the program reflect industry standards for how to measure the effectiveness and efficiency of water and wastewater utilities. The Portland Water Bureau has regularly participated in this survey and includes some of the AWWA benchmarks as their key performance measures.

CBO recommends that the bureau continue to work with CBO and the public to develop measures that provide Council with more useful information for making budget decisions. Prior performance initiatives, the AWWA survey, and other national best practices may provide further ideas for areas that would most effectively measure the value of the bureau's core services. In addition, in FY 2015-16 the bureau also plans to survey customers about which services levels are most important.

FY 2015-16 Requested Budget

The bureau submitted two decision packages for FY 2015-16, neither of which have significant programmatic or financial impacts. These packages are unlikely to result in any changes to bureau performance as measured by its key performance measures. Decisions more important for Council's consideration are the approval of a 7.0% rate increase and the FY 2015-16 capital plan, which includes approval of expenditures for projects that will require continued rate increases in order to complete. Operational expenses are expected to grow by $3.6 million (4.5%) from $80.0 million in FY 2014-15 to $83.6 million in FY 2015-16 due to inflationary increases, personnel costs and an increased utility license fee.

Due to changes in how EBS costs were allocated to bureaus, the Portland Water Bureau benefitted from $150,000 in ongoing savings. These savings have been used to offset costs associated with the new fueling stations and the expected increase in postage and printing of monthly statements, following the recent change in policy that allows all residential customers to request for monthly statements without having to receive electronic billing.

Decision Package Analysis & Recommendations

Realign Staffing, WA_01, $0, 0.50 FTE

The bureau requests position authority for an additional 1.0 FTE for a second full-time ranger position in the Bull Run Watershed, to convert a 0.50 FTE OSSII to a full-time position, and to eliminate a full-time permanent OSSII position. Council approved funding for the ranger position as part of the FY 2014-15 Fall BMP. In addition, the bureau requests to realign administrative support staffing, resulting in a net increase of 0.5 FTE. The bureau will realign current resources to fund the realignments but also require an additional $45,828 in new ongoing resources to be funded by water rate revenues.

As part of the package, the bureau indicated that a new deputy director position will be created in FY 2015-16. Estimated costs for this position are approximately $200,000 including salary and benefits, which will be funded through the savings from and reclassification of vacant positions. As such, there should a net zero impact of adding the position. This decision package neither creates the position nor does it request funding for the position. Rather, the bureau has indicated that it will realign savings of vacant positions and use the position authority of another vacant position, previously approved by Council, to create the position during FY 2015-16. Specific responsibilities of the position have not been identified but will include responsibilities of business operations, including bureau communication, equity, human resources, facilities, strategic and long-range planning, and wholesale contracts.

This packages shows as $0 impact because the bureau will draw on contingency to fund the additional costs in FY 2015-16. The ongoing costs of the realignments will be $45,828.

CBO recommends approval of this package as requested.

CBO Recommendation: $0, 0.50 FTE

City Budget Office Interagency in Support of PUB, WA_02, $0, 0.00 FTE

In July 2014, Mayor Hales and Commissioner Fish convened the Blue Ribbon Commission on Utility Oversight. That commission met for several months to develop recommendations on potential reforms of oversight and accountability of the utility bureaus, focusing on streamlining communications and transparency in the rate setting process. The final report was issued in December 2014 with the principal recommendation to create a permanent City board replacing the Public Utility Review Board and the Budget Advisory Committees for Portland Water Bureau and the Bureau of Environmental Services. One of the key recommendations was to create "a minimum of two full-time, senior-level staff dedicated to and directed by the PUB, with hiring and administrative management by the CBO Director." Already within CBO is 1.0 FTE that provides utility analysis, which is funded by General Fund overhead resources.

This package reflects that recommendation by funding a Principal Financial Analyst in the City Budget Office that will directly support the PUB administratively and analytically, to be equally shared with the Bureau of Environmental Services. The cost for the position, materials and services associated with the position, and bureau indirect costs allocated to the position total an estimated $200,418 as shown below.

- Principal Financial Analyst - $146,616, including salary and benefits
- Internal Materials & Services - $1,940, including copying, phone, computer, etc.
- External Materials & Services - $3,150, including Microsoft Office 365 licensing and other miscellaneous costs
- Administrative Overhead - $48,712, including an allocation for the administrative support position, the bureau director, and a portion of the deputy director; this amount also includes an allocation of fixed charges for the bureau (e.g. rent, server support, insurance and risk, and BTS corporate).

While the BRC recommended that the PUB have resources available for outside consulting, the requested budget does not include those resources with the understanding that the PUB, through their dedicated staff, may put such a request forward at any time, should the need arise.

The City Budget Office developed this request in coordination with Commissioner Fish's Office. As this request impacts CBO staffing and resources, CBO realizes there is a potential bias in the recommendation. However, the CBO does note that it accomplishes the specific recommendation of the BRC, and, as such, would include it in the balancing scenario for further consideration.

This packages shows as $0 impact because the bureau will draw on contingency to fund the additional costs in FY 2015-16. The ongoing costs of the package will be $100,209 to be funded by water sale revenues. The combined ongoing increase of WA_01 and WA_02 will result in approximately 0.1% retail rate increase.

CBO Recommendation: $0.

City of Portland

Decision Package Recommendations

(Includes Contingency and Ending Balance)

	Bureau Priority	Bureau Requested					CBO Analyst Recommendations				
		FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses	FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses
Portland Water Bureau											
Realignments											
WA_01 - Realign Staffing	01	0.50	0	0	0	0	0.50	0	0	0	0
WA_02 - Public Utility Board I/A	02	0.00	0	0	0	0	0.00	0	0	0	0
Total Realignments		*0.50*	*0*	*0*	*0*	*0*	*0.50*	*0*	*0*	*0*	*0*
Total Portland Water Bureau		**0.50**	**0**	**0**	**0**	**0**	**0.50**	**0**	**0**	**0**	**0**