

Date: August 22, 2016

To: Mayor Charlie Hales
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Steve Novick
Commissioner Dan Saltzman
Auditor Mary Hull Caballero

From: Portland Utility Board

Re: FY 2015-16 Annual Report

Per Chapter 3.123 of Portland City Code that governs the Portland Utility Board (PUB), please find attached our Annual Report for fiscal year 2015-16 and a preliminary workplan for the upcoming year.

As you will see from the report, this year we spent a majority of our time orienting ourselves – establishing a base of knowledge about bureau operations and budget processes of the Portland Water Bureau and Bureau of Environmental Services and establishing the bylaws and operating procedures of the board to enable us to operate effectively.

In 2016-17, we look forward to actively engaging the bureaus as they embark on their strategic planning processes and develop plans for future capital improvement program proposals. The PUB will be taking an in depth look at the affordability of water and wastewater services, and will work with both bureaus to identify strategies to help contain costs and manage the rate stabilization funds and overall debt service.

This year, we will also engage the broader public in our discussions and deliberations. To facilitate that engagement, 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.

Recognizing there is always room for improvement in our processes and approach, we look forward to a constructive dialogue with the Council and bureaus in 2016-17.

Portland Utility Board 2015-16 Annual Report

The Portland Utility Board (PUB) officially began its service to the city on September 1, 2015. Its formation and general structure was recommended by the Portland Utility Oversight Blue Ribbon Commission which, in 2014, evaluated the need for additional oversight of Portland's utility bureaus – the Portland Water Bureau and Bureau of Environmental Services. In response to that evaluation, the PUB was created to:

“advise the City Council, on behalf of and for the benefit of the citizens of Portland, on the financial plans, capital improvements, annual budget development and rate setting for the City's water, sewer, stormwater, and watershed services. The Board will advise Council on the establishment of fair and equitable rates, consistent with balancing the goals of customer needs, legal mandates, existing public policies, such as protecting water quality and improving watershed health, operational requirements, and the long-term financial stability and viability of the utilities. (Portland City Code. (3.123.010)”

Activities Completed

Through June 30, 2016, the members of the PUB have dedicated 410 hours of service in formal meetings plus additional hours preparing for meetings. The PUB held twelve Board meetings (Table 1) and a total of 10 subcommittee meetings to address the low income discount program (6 meetings), the budget review (3 meetings), and new member selection (1 meeting). PUB members also participated in 6 administrative review hearings for both bureaus. In between meetings, there were substantial reading materials to help members fully understand the depth and breadth of the services of each utility. The PUB produced a budget letter that was provided to City Council per the bylaws, as well as an evaluation matrix of options for the low income discount program.

The board's 2015-16 work plan identified five major areas of review for the PUB: Financial Planning and Budgeting, Rate Setting and Debt Service, Strategic and Resiliency Planning, Bureau Performance, and Bureau Engagement and Oversight (Table 2). Each Board meeting was designed to further the members understanding of the challenges and opportunities facing each bureau within these areas of review.

In addition, there was time integrated into several board meetings for the members to address administrative tasks, such as the hiring of staff to assist the PUB, and the development, review, and adoption of board bylaws, board procedures, and a board process for filling vacancies and electing chairpersons. A website was created (<http://www.portlandoregon.gov/cbo/68272>) to help facilitate the sharing of information among members and with the public. We followed our newly established procedures for recommending co-chairs and new members to the Mayor for appointment.

With the approval of Board members regarding the scope and intent of the messages to be conveyed, the PUB Co-chairs participated in several meetings with Commissioner Fish, the Mayor, and the full City Council, including:

- Council work session on requested budgets on March 29, 2016
- Mayor’s budget work session on April 15, 2016
- Council rate setting work session on May 19, 2016
- Meetings with Commissioner Fish on April 21, 2016 and July 28, 2016
- Testimony on Terminal 1 North resolution on August 10, 2016

Table 1: FY 2015-2016 PUB Board Meetings	
September 1, 2015	January 19, 2016
Board Perspectives Bylaws Workplan	Budget Development Update Bylaws Discuss, Amend, and Approve Budget Letter
September 22, 2015	February 2, 2016
Budget Process 101 Bureau Activities Briefing Workplan	BES Strategic Plan Overview Budget Development Update Internal Board Procedures Water Bureau Briefing on System Resiliency
October 13, 2015	March 1, 2016
Introduction to Bureau Finance PUB as a Budget Advisory Committee Workplan	Budget Discussion with Bureaus CBO Budget Reviews CUB Update on Biogas Internal Board Procedures
November 3, 2015	April 5, 2016
Administrative Briefs and Workplan Review Bureau Activities Briefing Low Income Discount Program	Adoption of Internal Board Rules BES Strategic Plan and Public Involvement Recommendation of Co-chairs Recommendations of Low Income Subcommittee Work Plan Revisit
November 24, 2015	May 3, 2016
Bill Affordability Budget Development Update CIP Discussion	Asset Management Membership Committee Report Performance Management Portland Harbor Update

December 15, 2015	June 7, 2016
Budget Development Update Bylaws	BES Strategic Plan Update Billing and Customer Service Key Service Levels Washington Park Update
Minutes for all meetings can be found on the PUB website.	

Table 2: FY 2015-2016 PUB Subcommittee Meetings	
Low Income Discount	Budget Committee
October 29, 2015	January 12, 2016
November 12, 2015	February 22, 2016
January 19, 2016	May 18, 2016
February 16, 2016	
March 15, 2016	Membership Committee
May 19, 2016	March 24, 2016

Table 3: FY 2015-16 Topics Reviewed by Workplan Category
Financial Planning and Budgeting
Budget Process 101 Introduction to Bureau Finance and Bureau Budget Update 2016 Budget Development Updates Capital Improvement Plans CBO Briefing of Budget Analysis and Reviews
Rate Setting and Debt Service
Bill Affordability Billing and Customer Service
Strategic and Resiliency Planning
BES Strategic Plan Overview Resiliency in the Water Bureau Bureau Strategic Plans and Public Involvement Asset Management at Water and BES
Bureau Performance
Performance Management and Key Performance Measures Key Service Levels of the Water Bureau

Bureau Engagement and Oversight
CUB Briefing on Biogas
Portland Harbor Update
Lead
Washington Park Update

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. The PUB also would like budget discussions to include identifying the service level and risk exposure impacts of reductions.

- **Low Income Discount Program Intractable Issues.** In the Fall, PUB created a subcommittee to review the [Low Income Discount Report](#) at the request of Commissioner Fish. The subcommittee met six times and received staff reports on the current program as well as plans for additional program outreach.

The subcommittee identified ten potential options for the bill discount currently administered by the Water Bureau. In their discussions, the subcommittee members voiced concern with the basic structure of the program; not all residents with similar income profiles have access to the program. Access is limited to low-income residents (renters and owners) in single-family households that pay their bill directly. As currently structured, all utility customers subsidize the program through their rate payments. That structure increases the burden on low-income residents who can't access or choose not to participate in the program.

The PUB will continue to examine this issue within the broader context of equity and affordability in FY 2016-17.

- **Terminal 1 North Resolution.** The PUB welcomes the opportunity to work with Council to ensure proper public process and vetting occurs when utility projects or projects impacting the utilities are proposed that are outside their normal procedures or the budget process. The Blue Ribbon Commission recommended the formation of the PUB to proactively address issues just like the Terminal 1 North resolution. Unfortunately, we were not given

an opportunity to properly vet the proposal, originating from a Commissioner not overseeing the bureau, for that BES property. Had the full Council seriously considered our concerns regarding both the optics and the real financial uncertainty of the proposal, a better outcome might have been realized. The politics that ensued with the Terminal 1 North proposal should not continue if we are to protect the interests of our customers – the ratepayers. We take our oversight role seriously and were disappointed that the Council did not recognize the importance of PUB’s opinion in this decision.

- **Member Turnover, Makeup, and Meeting Attendance.** Serving on the PUB requires a substantial commitment of time. While some members are actively paid by their employer for their time in service, others are not (some employed are obligated to use vacation or administrative time off for attending meetings and events). This can lead to challenges of attendance and may influence the level of turnover in the PUB. To address this concern, the PUB has tried to minimize the meeting time and length and place meetings in the shoulder hours rather than mid-day. However, there may need to be an adjustment to the bylaws regarding attendance and/or an evaluation of the benefits of increasing the size of the PUB from 9 to 11 members to account for potential turnover and an assumption of at least two absences per meeting among various members.

The subcommittee that reviewed replacement candidates recommended that the PUB staff work with the Office of Neighborhood Involvement to conduct outreach and build a candidate pool for the PUB to potentially draw from when vacancies occur.

The PUB would also like City Council to clarify the existing code so ex-officio members serve year-round to ensure they are apprised of all the topics that impact budget discussions; these discussions happen throughout the year. The ex-officio members offer valuable insight to the discussions and are viewed by the rest of the PUB as full members, despite their inability to vote.

- **Meeting Format and Reflection.** Several PUB members have requested more time to reflect on and discuss the information we receive from the bureaus. To date, many of the meetings have been packed with agenda items, leaving limited opportunity for discussion. Restricting the number and extending the length of the agenda items in the future should allow time for both presentation and reflection. In addition, the PUB will be setting meeting times more consistently (First Tuesday of each month, 4-6:30pm) to help build it as an institution.

Reflection on Blue Ribbon Commission Recommendations

The Portland Utility Oversight Blue Ribbon Commission [reported](#) to City Council on November 13, 2014 their recommendations for the formation and execution of the PUB. They highlighted the following Goals and Key Considerations:

1. Build on efforts to date
2. Recognize that rates are driven by multiple factors, some outside the City's control
3. Start anew but avoid creating new bureaucracy
4. Honor the commitment and dedication of staff and volunteers
5. Address real and perceived issues of public concern and trust
6. Improve transparency, communications, and education
7. Adopt new standards of practice
8. Ensure the PUB has strong public standing and accountability
9. Provide for strong and consistent public involvement in decision-making
10. Recognize that innovation requires risk and failure which should not be a deterrent
11. Recognize the relationship of balance of authority to bond ratings

Upon review, the PUB and City Council has met many of the expectations outlined in the report, including:

- Recycling and streamlining three advisory groups to one, and having the PUB adequately staffed and operating year round
- Offering ample context to PUB members to ensure they understood the influences on rates
- Honoring the involvement and perspectives of staff and public through the PUB makeup and administration
- Providing the PUB with strong public standing and accountability
- Institutionalizing and expanding the City Utility Rate Review public hearing to foster dialogue
- The Portland Water Bureau and Bureau of Environmental Services bring all projects over \$500,000 to the City Council as regular agenda items vs consent

Areas of the report that continue as a work-in-progress for the PUB to consider include:

- Working more closely with the bureaus to have them proactively utilize the PUB to vet their policy and budget matters, before they enter formal public process with City Council
- Addressing real and perceived issues of public concern and trust. The PUB is yet to be seen as a body to share such grievances.
- Improving transparency, communications and education. The PUB has light attendance from the general public at its meetings.
- Working with City Council to adopt new standards of practice regarding utility oversight, and providing for strong and consistent public involvement in decision-making. The late-breaking Terminal 1 North resolution represented a departure from this desired goal.
- Viewing the bureaus activities with an eye towards innovation
- Thoughtful consideration of the investment requirements and policies that may be appropriate and necessary to retain high bond ratings for both bureaus.

Proposed 2016-17 Workplan

The proposed 2016-17 workplan is designed to help the bureaus integrate the PUB into their work flow, especially for activities like strategic planning, capital improvement budgeting, and operational budget decisions. (insert work plan – see PDF attachment)

Conclusion

The PUB appreciates the opportunity to serve the City and utility customers. We look forward to a productive year ahead and continued engagement with City Council regarding issues impacting the bureaus.

In addition, we extend a thank you to many members of the bureau staff who prepared information and presentations for the PUB as well as the Citizen's Utility Board and the League of Women Voters, who regularly attend and offer us perspective in our discussions. We appreciate their time and investment in the PUB.