Portland Utility Board

October 25, 3:00pm – 4:30pm
Pettygrove Room City Hall

PUB Members:	Allan Warman Julia Person Kendra Smith Marie Walkiewicz, ex officio Robert Martineau Colleen Johnson
Staff:	Cecelia Huynh (Director of Finance and Support Services, Water) Jonas Biery (Business Services Manager, BES) Gabe Solmer (Communications Director, Water) Liam Frost (Policy Director, Commissioner Fish's Office) Claudio Campuzano (Principal Analyst, City Budget Office) Ryan Kinsella (Senior Analyst, City Budget Office) Melissa Merrell (Principal Analyst, City Budget Office) Jim Blackwood (Senior Policy Director, Commissioner Fish's Office) Ken Rust, (CFO, City of Portland) Ken Bartoccii (Principal Financial Analyst, BES)
Public:	Janice Thompson (Citizen Utility Board) Carol Cushman (League of Women Voters)

I. Call to Order, Introduction of Any Audience Members

Allan introduced the meeting and explained that the first part of the meeting would be a recap of information presented at the recent City Council budget retreat (full slide presentation). Ken Rust, Chief Financial Officer, provided an overview of the long-term financial forecasts. This forecast included three major components: Fire and Police pension liability, infrastructure funding, and employee liabilities (PERs). Ken noted that Water and BES were listed as "yellow" because of long-term infrastructure needs and affordability. Funding for the City's transportation costs continue to be a primary concern. Legacy costs include the Columbia River levee, Portland Harbor costs, employee costs (pension, health care, salary costs). A slowing down of revenues is expected at some point within the next five years. It is likely that revenue growth will not be sufficient to cover liabilities and the City will be looking at recurring budget reductions each year.

Different scenarios were considered, including different magnitudes of recessions and a slow growth scenario. The most challenging of the scenarios is the slow growth scenario, which would create the greatest long-term deficit. Given these constraints, during the presentation last week, Andrew Scott (Budget Director) presented different budget options to address the long-term financial liabilities.

Colleen asked for further clarification on the slow growth scenario. Ken said that he would follow-up.

Colleen also asked about the options for new revenues. Ken explained that they have been looking at strategies to address the Business License Tax gap. They are also considering options to collect on AirBnB and foreclosed properties.

Colleen asked whether Measure 97 would provide any relief to the City. Ken explained that there would be no direct benefit to the City. It would, however, take funding pressures off the State.

Kendra asked about the impact of collective bargaining on the long-term financial picture. Ken explained that each increase in a collective bargaining agreement has a trickle-down effect on other collective bargaining agreement. He also noted that it is difficult to find efficiencies in the City's labor force if the employees are represented by a labor agreement.

Rob asked the personnel costs in the utility bureaus. Ken explained that these costs are the same as the costs in the General Fund. The only difference is that has a different funding model that allows the bureau to address these costs. Rob followed up by asking if whether any legacy employee costs are ever shifted to the General Fund. Ken explained that these costs are always separated.

II. **Budget Guidance**

Melissa then provide a document that outlines previous budget guidance to the utility bureaus over the past four years. She also introduced the draft guidance for the upcoming budget process. Jim and Liam then discussed Commissioner Fish's budget guidance. Guidance was given to provide flexibility for whoever is in charge of the utility bureaus after the new mayor takes office. Guidance was also given with the expectation that bureaus would develop the most efficient and cost effective budget. The Commissioner ultimately has the ability to approve the requested rate increase.

Allan explained that PUB works in confined timeline and expressed concern as to whether the current guidance allows PUB to weigh-in on the budget process.

Jim explained that the guidance also allows PUB to recommend a greater increase if they believe that additional resources are needed. Allan suggested that was not likely.

Kendra raised concerns as to whether this budget process would allow the bureau to address the long-term employee costs and current affordability issues. Kendra also raised concerns about the new lab testing positions that are being requested in the supplemental budget and that these positions should be requested in the upcoming budget process in the context of other decisions.

Melissa provided an overview of the requested lead positions. Ryan provided an overview of the recommendations against the positions.

Kendra again raised concerns as to why this these positions were immediately needed, before the budget process, if the lead issues have been ongoing for years.

Colleen asked about why classification process took longer for reclassifying rather creating new positions. Gabe responded that the process typically takes particularly long and the bureau thought it was easier to add position rather than reclassify existing ones.

Allan had several follow-up questions about the costs of the positions. Ryan responded that costs included in the bureau's request reflect the costs of the positions over the remaining nine months of the current year rather than full annual amount. The FY 2017-18 costs will be greater due to the additional three months of position costs.

III. **Budget Update**

Jonas responded to the PUB's interest in understanding what in the budget is rigid and what is flexible. They took three approaches: 1) Everything is flexible. 2) Nothing is flexible. 3) Somewhere in between. They then walked through several components.

Jonas cautioned that any change in assumptions can have an impact – large or small, long-term or short-term. Some assumptions are locked in. For example, they will use an economic assumption without regard to the impact. It will not be revisited to achieve a different outcome.

Cecelia said there is no 'fixed' or 'flexible', but rather 'rigid' which is relatively beyond their control and 'less rigid' where there is some flexibility.

Personnel costs are roughly $50M for both bureaus. PERS, health benefits, and COLA are very rigid. Classification and compensation is also more rigid. Staffing level is less rigid as the bureau has more control. However, reducing staff would be a reduction in service level (e.g. timeliness, quality, etc.). Training and development are more flexible, but there are pressures to keep that spending up. The bureaus do look for options to keep costs down (e.g. group trainings in house versus individual training).

Interagency and Overhead costs were noted. Central Services were considered more rigid while inter-bureau agreements are less rigid. Central services are more rigid in that there are allocations (e.g. information security) and cost-of-service (e.g. fleet). Bureau-to-bureau are less rigid because service level is negotiable.

Programmatic view shows rigid and less rigid ranging from regulatory/legal compliance to core mission to level of service standards, to customer assistance programs.

Jonas talked about debt service. Existing debt service and required coverage are rigid. Target coverage is a bit less rigid but leads to higher credit rating. Debt cost assumptions are somewhat more flexible such as interest rates, reserve requirements, and issuance costs. Finally, the most flexible is the future capital investment assumption and the related assumed debt costs.

Capital Improvement Plan. Those things that are coming up in the first year are most rigid, followed by regulatory driven projects. Multi-year projects in progress and out-year projects are the least rigid.

Economic Assumptions. Personnel cost increase assumptions are the most rigid. Then inflationary assumptions and interest earnings. Then customer growth, SDC growth, and usage/conservation assumptions are the most flexible.

Marie raised the issue that rates are, themselves, flexible. Jonas noted that all of these forecast assumptions roll up to rate requirements, so, yes, those rates are flexible. Jonas noted that with regard to stabilizing rate increases vis a vis a measure such as percent of Median Family Income (MFI), BES is there.

Cecelia covered a number of other considerations. She noted that the bureau is necessarily conservative with regard to assumptions so as not to have mid-year issues.

Kendra asked what would happen if utilities followed General Fund bureaus and took mandatory 1% reductions.

Cecelia talked about many years of soup thinning and noted that any reductions would result in service level reductions. Jonas noted that getting the public's opinion on service level expectation would be important in that conversation.

IV. Public Comment

Janice highlighted that the rate stabilization fund is flexible but is used for bond ratings.

Janice also noted that the lead testing plan, in which all customers are offered testing, is key factor in the decision to not create a treatment plant.

PUB then discussed the timeline for the budget subcommittee meetings, including when and how often they should meet in order to develop their recommendations on the budget process. Melissa explained that the general PUB meetings will be used as building blocks to better understand budget development of both bureaus that will complement the subcommittee meetings.

Rob suggested that PUB invite bureau directors to explain their priorities and budget direction to bureaus, and that PUB should consider how to approach further analysis on capital plan.

Marie noted that it is difficult to analyze the capital plan in order to have a near term impact and that most of the immediate impact will be around personnel and programs.

The meeting adjourned at 4:45 PM.