

Portland Utility Board

November 7, 2017 4pm – 6:30pm

Portland Water Bureau Interstate Facility

Meeting #35

PUB Members: Alice Brawley-Chesworth, ex officio
Allan Warman
Ana Brophy, ex officio
Colleen Johnson
Dan Peterson
Hilda Stevens
Micah Meskel
Robert Martineau
Ted Labbe

Absent:

* Lee Moore
* Meredith Connolly
* Mike Weedall
* Van Le, ex officio
* Scott Robinson

*Notice of absence provided prior to meeting

Staff: Gabe Solmer (Deputy Director, Portland Water Bureau)
Cecelia Huynh (Director of Finance and Support Services, Portland Water Bureau)
Liam Frost (Management Analyst, Portland Water Bureau)
Todd Lofgren (Senior Policy Advisor, Commissioner Fish)
Jonas Biery, (Business Services Manager, Bureau of Environmental Services)
Mike Jordan (Director, Bureau of Environmental Services)
Dawn Uchiyama (Deputy Director, Bureau of Environmental Services)
Jeff Winner (Capital Improvement Program Planning Supervisor, Portland Water Bureau)

Shannon Fairchild (Financial Analyst, City Budget Office)
Melissa Merrell (Principal Analyst, City Budget Office)

Public: Carol Cushman (League of Woman Voters)

I. Call to Order

Colleen opened the meeting and gave an overview of the agenda. She reminded the members that they received an update on the biogas project and that they should send Melissa any questions.

II. Approval of Prior Meeting Minutes

The board considered the minutes for the October 19, 2017 meeting. There were no amendments. All members voted in favor; no one opposed.

III. Disclosure of Communications

Ted meets regularly with BES staff for his work but hasn't had any conversations related to PUB business. Rob also meets regularly with bureau and commissioner staff. Allan had discussions with bureau staff about operations. Ana participated in an interview panel.

IV. Board Discussion Items

Priority Items for Engagement:

At the last meeting, Melissa summarized the priority items members had indicated. Board members were given the opportunity to suggest other topics. Alice suggested adding a reoccurring item related to risks to the bureaus and Micah suggested additional conversation about corrosion control given the recent exceedance of the federal lead threshold. Colleen said both of those would be added to future agendas.

Rules and Procedures:

Also discussed at the last meeting were potential changes to our board procedures. So far only two members have indicated availability for the communications subcommittee. Member Mike Weedall has also expressed interested in a dashboard Colleen asked Melissa to resend the doodle poll again.

BES Strategic Plan:

Allan read the proposed board statement of support for the BES Strategic Plan. No members had suggested changes. Colleen asked if there was any public comment; there was none. Dan motioned to approve the statement; Rob seconded. All members voted in favor; no members opposed.

V. Water Quality Update, Gabe Solmer, Deputy Director, Water Bureau

Colleen prefaced the next discussion. Since the last PUB meeting, the Water Bureau has reported that the twice annual lead testing exceeded the federal threshold. In addition, there have been 9 samples from Bull Run intake that have tested positive for cryptosporidium.

Gabe reviewed the past year. The positive sampling for cryptosporidium in the Spring was regulatorily significant but not a public health threat. It led to increased monitoring, the loss of the variance, and the City Council decision to build a filtration facility. In the past month, the mechanism to convey cryptosporidium to Bull Run water was heavy waterfall after the Eagle Creek Fire this summer. She said it's hard to tie rainfall to a particular detection event. Gabe said the county is not concerned about illness.

Gabe said the bureau continues to work closely with OHA and EPA and they have had collaborative and productive discussions on the compliance agreement over next 10 years. The date for an agreement remains November 22. All parties have agreed to all the issues in principle but still need to work out some issues with language.

The Lead and Copper Rule requires the bureau to do twice yearly testing in the spring and fall. This testing happens in homes that have documented high lead levels from home plumbing. Gabe reminded the group that lead isn't in the distribution system, and when it is, it is at very low levels.

Gabe explained the 90 percentile concept. The bureau is required to notify the public if the test results for more than 10 percent of the high-risk homes exceed 15 parts per billion for lead. The results this fall (17 ppb) are the same as the results from last fall. Gabe said it's difficult to draw conclusions on whether changes made to water system are working. Over this past year, the monitoring pool for the testing has changed. The bureau replaced some homes with lower lead results with ones with higher. Gabe said that the unchanged results with a different pool of homes could mean the changes implemented over the last year are working.

The bureau is targeting communities for information with bill inserts, reaching out to high risk communities, and giving tips on lowering exposure to household lead risks.

Allan asked how many homes have high levels of lead in service area. There are 15,000 homes in Portland and 45,000 homes in the larger area that are the right age to have lead solder and pipes in the home.

Rob asked if OHA or EPA pushed back on the timing of the filtration plant. Gabe said Dave Peters convinced them that 10 years is the realistic timeframe and OHA understood. Rob then asked what would happen with the testing requirements if there were no homes with lead, if everyone replaced their plumbing. Gabe said the goal isn't to remove all sources but to do better than they currently are.

Ted asked about the testing requirements. Gabe responded that the joint monitoring program used to includes homes in wholesale areas that mix Portland Water with other sources. This round they replaced several homes. Ted asked how does this impacts wholesalers and Gabe responded that the Water Bureau helped wholesalers no longer in the joint monitoring program to find homes to test and talk to customers about lead. Those jurisdictions will have to report to OHA themselves.

Micah asked how the bureau had adjusted pH recently. The bureau has raised the pH to 8.2 but would not make any additional adjustments until 2022. Micah asked how high the bureau could raise the pH. Gabe said it depends on treatment, the last time this was studied identified a target of a pH of 9 and alkalinity of 20. Micah asked if there were conversations about addressing the root of the problem. Gabe responded that EPA hasn't figured if the bureau can use rate funds to do work in the home. Micah would like to see those conversations continue and Ted agreed. Ted encouraged the bureau to think beyond concern about limitations of rate payer dollars. He said it was conceivable to bring in non-rate payer money.

Allan asked if it would be significantly less expensive to fix homes with lead solder than to do corrosion control. Gabe said in addition to pipes, fixtures had lead until 2014, so it will be more expensive than the potential 15,000 homes. Allan responded that the highest concentration of lead is in lead solder compared to fixture that has smaller impact. Gabe said that if you flush your water for 30 seconds, then people wouldn't have a problem.

VI. Budget Outlook and Guidance Melissa Merrell, PUB Analyst

Melissa summarized the city budget outlook and the city budget process. The city process unofficially began with the council work session in October. At that session, the City Budget Office talked to Council about economic indicators. All indicators are positive, median income rising, high wage job growth, home prices up, city revenues up (GF), tax receipt higher than expected; and surpluses at the city. However, General Fund bureaus are likely going to be required to submit cuts because the city's consumption is more than the revenue growth. Utilities are different. There has not yet been guidance from the mayor or commissioner. Melissa directed members to the board [memo](#) on prior years' guidance.

Next week will be the official budget kickoff where guidance is expected to be available. Also coming out next week is the Budget Manual which includes on [how to put together a robust decision package](#). Through January 29, the bureaus will work internally to finalize their budget requests. Melissa reminded members of the schedule for their meetings – the five-year capital plan drafts will be part of the November 21 meeting and the operating budgets, staffing requests, and DP requests will be part of the December 5 agenda. The goal is to have the board letter approved at the January meeting to be included in the bureau packages on January 29. After submission, the Council work sessions and CBO reviews will happen in March. The board will have the opportunity to provide more input later in the process. The bureau has provided three foundational documents: [rate conventions](#); [rigid and less rigid](#) types of spending; and a [graphic](#) about balanced budget.

Melissa reminded members this is the first discussion of the bureaus' budget formulation for FY 2018- The bureaus have been asked to present the following information:

- What does the budget picture look like?
- What is the trajectory of the bureaus?
- Reminder of current year rate forecast – starting point for FY 2018-19 development. How does the bureau think the forecast will change? What are the drivers?
- What are the general risks facing the bureau?

VII. BES Big Picture for the Bureau's Budget Jonas Biery, Business Services Manager, Bureau of Environmental Services

Allan invited Jonas and Mike Jordan to talk about BES.

Mike Jordan began with introductory remarks. He reminded the board that when he first started, the bureau was pretty sure they were underinvesting in maintenance of system but needed more data to know. The condition assessment work was performed, data confirmed that concern. Last year the bureau presented the board with a general plan to increase capital investment. This year that work and ramp up will continue. The big themes remain the same – put the utility on a sustainable path.

Jonas talked to the board about the [overview](#) documents. The budget presentation is the adopted budget with some mid-year changes. The five-year financial plan will be updated from this. Jonas pointed to the growth in operating and capital. He noted the slight decrease in FY 2022 and said it's harder to forecast changes in the outyears. He also noted that capital dollars are larger because they reflect inflation.

Jonas then talked about the positions summary table, noting that the actual new bodies that came into the bureau is smaller than new positions as some additions were contract conversions. Jonas said the operating budget chart reflects year to year change in operating budget and tracks with post-recession growth. Colleen asked about the decrease in FY 13-14 and Jonas said that year all bureaus were directed to cut. Jonas briefly talked about the rate forecast review; the rate stabilization fund balance growth; and the days cash on hand chart. He noted that was really important to rate strategy. It is the intent to use that fund balance over time to maintain 2.95% annual rate of increase target and mitigate against risks like Portland Harbor without major shocks to the system. Jonas was asked about the days of cash on hand and the bureau's target. Jonas said best practice is 270 days cash for a utility their size. He was also asked about the rate stabilization fund and said the bureau's strategy is to not use those funds now because doing so would cause rate increases in the future.

Jonas also talked about the annual debt service chart and how it shows the debt related to the combined sewer project was being paid off and by 2022-23 the bureau would be paying off as much as it adds on. He said that was another important component of the long-term rate stabilization strategy.

Jonas said the bureau anticipates a new bond issue Spring 2018. Ted asked when the CSO debt is totally paid off and Jonas responded 2037.

Jonas also said the bureau continues to forecast very conservatively in anticipation of the next recession. Jonas noted that growth brings in more revenue; but also requires more infrastructure to build and maintain. He also mentioned that a component of the tax reform policy in Washington, D.C. could impact the bureau's ability to refinance its debt.

Jonas then talked about the rate drivers: pension and healthcare pose risks that increases will be above expectations. The Portland Harbor remains a large unknown. The renovations of the Portland Building are also a point of risk. He highlighted the potential expansions of the low-income discount program and that expansion could have rates impacts.

He wrapped up his overview saying the bureau is still in a position of transition, moving from CSO to asset management. The bureau is learning how to use the strategic plan to inform budget decisions and will need more resources to figure that out. They are still targeting annual rates of increase below 3%. He gave the board a preview of themes to expects in the bureau's budget requests, saying they will likely align to goals in the strategic plan and a separate category for changes to the capital program.

Jonas then previewed the next several meetings.

Rob said that he talked about this last year but he is very interested in knowing how the budget requests will address the poor condition assets. Mike said that the analysis of expected useful life and risk of failure will be part of the capital discussion on November 21.

Allan asked about the inflation rate the bureau uses and Jonas said they get the Cola and CPI numbers from CBO.

VIII. Water Big Picture for the Bureau's Budget, Cecelia Huynh, Director of Finance and Support Services, Portland Water Bureau

Allan invited Cecelia to talk about Water and started with the [overview](#) documents. She talked about the operating and capital budgets as forecast last year. She pointed out that the escalation factors were calculated based on the city economist escalation rates for costs in labor, materials, and services.

She noted that filtration is not included. The bureau will bring you a ten-year forecast which includes filtration. In addition, operation and maintenance costs for the corrosion control project also need to be included. Hilda asked why there is such a big difference between 2019 and 2020 in the capital budget. Cecelia said the drivers are Washington Park and the Willamette River Crossing. Heavy construction will be happening in 2019 and the costs include the Portland Building.

She talked to the board about the bureau's staffing history. The bureau peaked at 669 (not including hydro staff) and went through cuts. Cecelia noted that the FY 2017-18 staff number doesn't include 6 limited term positions in the bureau.

She then talked about retail rates and notes the drop to 6.1% in 2023. She also noted that the forecast includes conservative assumptions. For example, the bond rate assumption is the interest rate will be 6% but when the bureau borrowed in 2016 the rate was closer to 3.5. She said these conservative assumptions are one reason the financial plan forecast is different than adopted retail rate increases.

Cecelia talked about water sales revenue and said that 90% of sales are from retail rates, the increase in revenue is from rate increases not demand increases.

Cecelia talked about rate stabilization and how surplus fund balances will help smooth rates moving forward. She noted that once they add the filtration project, all of these numbers are going to look very different. The bureau will continue contributing to rate stabilization until construction happens and then draw down from that account.

Rob asked if the industry standard for days of cash on hand is different for water and sewer utilities. Cecelia said the current minimum for the bureau is 45 days and if they were to raise that number, they would need to increase rates.

Cecelia said the bureau has planned a bond in the Spring but it will likely be delayed until Fall. The bureau is a AAA bond rated bureau and only 10% of water bureaus are rated with AAA.

She then talked about the [rate drivers](#). Positive drivers include fund balances and General fund money for non-water activities. The bureau will likely be putting together a decision package of those costs and requesting \$200,000 in ongoing General Fund support. Ted asked if these were the water bureau's interpretation or specified in the lawsuit. Cecelia said they were in the lawsuit and the bureau is identifying cost and making sure they are following the judgement.

The negative drivers include Mt. Tabor Preservation (if the Water Bureau had to pay for it) and decreases in retail demand which is a national trend. Ted commented that is a good thing. Cecelia also talked about labor contracts under negotiations that will likely impact rates.

There are also drivers for which the impact is unknown. For example, the conduits are old and the assessment underway will determine if large amounts of work are needed. There is talk of an eastside customer service office and potential changes to the billing process. This work is preliminary and its unknown if there would be cost savings. There will also be new proposals to expand the low-income program.

Allan asked if historically the escalation factors have been on target and Cecelia said that is unknown. Rates are based on what the bureau thinks they need which may deviate from escalation factors.

Colleen asked what the Water Bureau gets in SDCs versus BES and Cecelia said the bureaus impose different rates. Water gets about \$5 million per year. Jonas said BES receives between \$25-30 million. The last few years have been great but that's not always the case.

Ted said the SDCs are applied to retail customers and asked if the long-term forecasts include uncertainty with wholesalers and less revenue because some wholesalers are developing other sources. Cecelia said current wholesalers are on 10-year and 20-year contracts which go through 2026. If a current wholesaler wants to get off contract, they have to provide 5-year notice so the earliest anyone would leave is 2021. The bureau does know that some wholesale customers like Tualatin are looking at other sources. Tualatin is pursuing a Willamette River source but still plan to buy water from Portland for particular service area. By 2021 they will need to tell Portland how much they will be decreasing the amount of water they buy.

Ted noted that regulatory compliance is in negative column. Oregon keeps giving out water rights, which is impacting fish and more impactful than the reservoirs at Bull Run.

Alice thanked the bureaus for putting together similar materials. She noted it was a helpful resource for the public and PUB.

Cecelia closed by drawing the members attention to the last page which includes the bureaus anticipated budget themes which apply to both operating and capital. Those themes include workforce management. With filtration, the bureau is looking at different skill sets and more mandates related to safety of our employees. The bureau will provide information on a longer timeframe than 5 years.

IX. Public Comment

Carol Cushman from the League of Women Voters provided public comment. She expected to see the low-income audit in the list of engagement topics. She also wanted to make sure that the board still intended to include public comment before any votes when considered changes to its board procedures. Carol also noted that the Interstate facility was not a good room for the meetings -it was difficult to hear the conversations.

X. Discuss next Meeting Agenda

November 21, 2017

Location: City Hall Pettygrove Room

10am: Budget 101 training/refresher

11am: Board Meeting

CIP

Board Discussion

1pm: Low Income Discount Subcommittee

December 5, 2017

Location: 1900 Building

3pm: Budget 101 training/refresher

4pm: Bureau Operating Budgets, Staffing, and Decision Packages

XI. Meeting adjourned at 6:15pm.