

Portland Utility Board

November 21, 2017 11am – 1pm

Pettygrove Room, City Hall

Meeting #36

PUB Members: Alice Brawley-Chesworth, ex officio
Allan Warman
Ana Brophy, ex officio
Colleen Johnson
Dan Peterson
Lee Moore
Mike Weedall
Robert Martineau
Scott Robinson
Ted Labbe
Van Le, ex officio

Absent:

* Hilda Stevens
* Micah Meskel
* Meredith Connolly

*Notice of absence provided prior to meeting

Staff: Mike Jordan (Director, Bureau of Environmental Services)
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)
Bill Ryan (Chief Engineer, Bureau of Environmental Services)
Jeff Winner (Capital Improvement Program Planning Supervisor, Portland Water Bureau)
Jessica Letteney (Senior Management Analyst, Portland Water Bureau)

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

Public: Carol Cushman (League of Woman Voters)
Janice Thompson (Citizens Utility Board)

I. Call to Order

Allan opened the meeting and gave an overview of the agenda.

II. Approval of Prior Meeting Minutes

The board considered the minutes for the November 7, 2017 meeting. There were no amendments. It was moved and seconded to approve the meeting minutes. Two members abstained. The minutes will reflect while there weren't enough members present to vote to approve the minutes, there were no changes offered and the minutes stand as submitted.

III. Disclosure of Communications

Rob met with Commissioner Fish and Mayor Wheeler regarding contract negotiations.

IV. Board Discussion Items

Budget Guidance Update

Allan updated PUB members on the state of budget guidance for the bureaus. On Friday, the mayor released [budget guidance](#) which included a charge to the utility bureaus to work with PUB and CUB to identify reduction options to limit rate increases. On Monday, Commissioner Fish also released [guidance](#) to the utility bureaus. When the co-chairs met with the bureaus early in September they stressed that prioritization would be a key interest of PUB this year. The chairs would like to send a letter to the directors and commissioner making that request explicit and asked for the members' input. The members have a draft [letter](#) to use as a starting point for that discussion.

Scott commented that prioritization around equity was not yet in the letter and he thought it should be.

Van asked if the PUB would want to clarify the dimensions or concepts of how prioritization should happen or leave it open to the bureaus. For example, the PUB could say we would like you to prioritize by equity. Another concern Van voiced would be if all the items come back as regulatory driven, then is the information useful? She also noted the need to understand the apple versus grape issue. Some items in a budget as stand-alone items and some are multiple connected items rolled up.

Lee commented that most everything that the bureaus do is mandated typically by a date certain. He is interested in knowing the impact of those mandates on the capital budget and on rates. Equity is a value. In Lee's experience, the work of the bureaus is driven by mandate and how do they prioritize values with mandates.

Allen commented that he would like to see ranks based on cost and timing – a prioritize plan based on good management and making choices.

Dan agreed and leans toward what Lee is said. The bureaus know their priorities and he'd like the bureaus to lay them out and have the PUB react to them.

Alice agreed with Van's idea around giving direction on ranking and that it would provide the bureaus with some indication of PUB's priorities. She felt the board needed to have that philosophical discussion.

Scott voiced concern about being too prescriptive or directive. The bureaus are the experts in what they do and know what needs are priorities. He thought potentially offering categories would make sense. He noted that in a regulatory environment, not all regulations are equal. He suggested four categories: regulation, asset health (risk/reward profile), strategic alignment, and equity.

Colleen asked about prioritizing across buckets. Scott said he thinks the bureaus can prioritize within the categories, but agreed it is harder to decide across categories.

Alice noted that for many items the rate impact is small and wasn't sure how useful that will be to understand rate impact.

Colleen noted that the Commissioner's guidance was for the bureaus to submit budget requests that combined require not more than a 5 percent rate of increase. Colleen suggested that asking the bureaus to identify what projects wouldn't be funded if the rate increase was limited to 4% combined. She thought that would be useful to understand how the bureaus are prioritizing the requests.

Scott suggested a modification, the board could request the bureaus rank the projects and bucket choices by rate packages (group of projects that would be funded if a 3% rate increase were available; a 4% rate increase; and a 4.9% increase).

Mike asked if there was a way to get the bureaus input on how they can get the most value.

Lee noted that the council is asking general fund bureaus to offer 5% cuts; no different than private industry.

Allan commented that he felt the letter is a mode of communication to stress the request that the bureaus prioritize and make choices. As a volunteer board, the members aren't the experts.

Ted noted that he thinks the letter makes sense and he doesn't feel the board should be directive with its own priorities.

Colleen added to address Mike's question, it's not just the PUB asking for prioritization, but Council as well.

Rob gave examples of things in prior city budgets that weren't bureau priorities but may have been public priorities: water fountains and mounted patrol. He thinks the bureaus are good at prioritizing the operational and critical needs. However, he thinks that for other issues like equity, it's great to provide direction. The board can set that expectation, but the bureaus also need to run every day. Rob agrees with providing guidance, saying that's our role.

Lee said he doesn't know of an organization that doesn't go through a continuous process of prioritization. He wondered what would be behind a specific number if PUB were to identify one rather than if the bureau identifies one.

Van noted that ranking is quantitative and artificial. She would advocate bureaus use their expertise to give some kind of prioritization rather than ranking.

Colleen said she has been unable to understand what the tradeoffs are when thinking about the bureau budgets. For example, with the filtration plant, there are scarce resources and the addition of a very large capital project should require a lesser priority project falling off the table or getting pushed down the line. So far, the bureaus have not provided that type of information. She noted that a few meetings ago, she asked what she thought was a simple question about which CIP projects were the most important. The response was they are all important. Colleen stated that the city simply can't do everything. She wants to know what's going forward and what is not and want to understand both.

Allan said he felt the letter is the mechanism to understand those tradeoffs. He requested the members send their comments and the chairs would send their request next week.

Colleen said she felt there could be two different changes, first adding categories and second considering adding targets for rate increases.

Alice asked if there needed to be a full board vote before sending and Melissa said it could be a full board request or a request of the chairs.

Allan then asked if there was any public comment. Janice Thompson, Citizens Utility Board suggested the board could request their analyst provide a ranking for consideration.

Milestone Dashboard Proposal, Mike Weedall

Mike W. presented his [proposal](#) of a tracker for the board to use throughout the year. His idea is to set clear goals at a high level so that the bureaus know what the board has prioritized for the year and then the board can track it. He noted that the members have a draft to consider and that he welcomes everyone's feedback. This isn't intended to be comprehensive and list everything, but it's the milestones throughout the year. He noted that he felt it is critical to do this in coordination/partnership with the bureaus.

Ted thinks this is a good idea but cautioned to limiting the list to 5 or 6 items at most; too many makes it useless. He thought it might be hard to have the bureaus fit their work in this way and Mike responded that it wasn't meant to replace management measures that are already in use.

Alice noted that some of the things are project based and Mike said yes, that could be one example. Van said it was more activity tracking and not outcome tracking.

Alice cautioned that she doesn't think the dashboard would work for the way the bureaus do asset management and wouldn't want to ignore things that are hard to track, the bigger picture important things.

Allan thought this could be a good tool to help the board allocate its time.

Colleen said she has seen dashboards used on budgets. For her, it's all in the details of what the priorities are and then how the measures are identified. She thinks some of the information is

already available and can be pulled into this easily. Colleen suggested this could go to a subcommittee to develop it and then come back to the board with a more developed product to review.

Dan suggested that the low-income project could be a good project for this and Colleen, Mike W., and Scott all agreed and this will be part of the next Communications subcommittee agenda.

V. Capital Improvement Plan Draft of the Water Bureau, Jeff Winner, Capital Improvement Program Planning Supervisor, Portland Water Bureau

Jeff directed the members to three pieces of information: the [summary](#) sheet, the [slide deck](#), and a longer-term [handout](#). He began with a summary of the assets of the Water Bureau; valued at more than \$8.4 billion. Each year the city assesses its capital assets and Jeff talked about some of the information from that report. About 9% of the bureau's assets are in very poor to poor condition. Of all the bureau's assets related to distribution, 5% of those are in poor or very poor condition. The current replacement cycle exceeds 350 years. He also talked about the annual funding gap.

He also noted the drivers of the capital plan: regulatory compliance, public health protection, risk mitigation, projects in construction (partners and ODOT), and others.

Half of the five-year capital budget is for replacing infrastructure, including aging pump stations, pipes, meters and mains. The bureau develops business cases for most projects.

He then talked about the changes from the prior 5-Year CIP, including the Portland Building and Willamette River Crossing in the inner years and filtration in the outer years. When comparing the FY 2018-19 draft plan to the adopted FY 2017-18 plan, there is a \$10 million increase in distribution projects; an \$11 decrease in transmission and storage projects; and a \$92 million increase in the Treatment program. He noted that there were changes to plans for developing Vivian wellfield and plans for the Sandy River Crossing. Colleen noted a math typo on one slide that Jeff later corrected.

Jeff then talked about specific changes in the capital programs of regulatory compliance, system upgrades, system replacements and rehabilitation, and resiliency. He showed the members a chart with the types of assets of the bureaus, average age, rate of replacement and average annual budget. a 1% replacement rate means it takes 100 years to replace the assets. He talked specifically about the distribution assets and shows a graphic with break rate by neighborhood. Their goal is no more than 10 breaks per 100 miles; AWWA optimal standard is 15. Overall the bureau is doing well but some neighborhoods, particularly the north and east are less than optimal.

Alice noted that in general, we've said that older pipes break more, but this map doesn't show that.

Jeff said it there wasn't a direct age:break connection but it depends on the material and the evolution of cast-iron. Some of the oldest pipes are still is good. There are more failures in the new cast-iron pipe than older pipe. Some of these neighborhoods seeing high number of pipe

breaks are annexed areas. The bureau averages about 200 breaks per year and Jeff shows the members the main predicted failure rates at the existing rate of investment and double the existing rate. Lee asked how the bureau's strategy shape the distribution failure line. Jeff said that at the current rate of investment, in 2040, the failure rate becomes unmanageable at 600 breaks per year. Jeff said that if the bureau wasn't doing filtration, they would double repair and replacement. They are proposing ramping up replacement spending over 10 years which would be manageable. He also added that with each leak, there are health risks, damage to other infrastructure, and potential negative economic impact.

Jeff then talked about the assessment work on the conduits. The bureau has finished the assessment of conduit 2 and is starting on conduit 2. There is a risk that once they are done with condition assessment work, there may be a need to build a new conduit versus rehabilitating one of the existing ones. However, Jeff thinks that modest investments are most likely for the conduits.

He then talked about the seismic backbone improvements. This is the work that would be required to get service back up within 24 hours of a Cascadia event. The bureau is already working on Washington Park and the Willamette River Crossing. The bureau is currently targeting to have the other necessary work done within 30 years – 20 years faster than the state plan deadline from 50 years to 30 years. With these investments, the bureau is trying to make sure that the region can recover post disaster to support economic development.

Finally, Jeff talked about the long-term outlook and shared the bureau's investment plan of roughly \$500 million for each of the next 3 5-year periods. Distribution would increase because of resiliency planning and treatment is up until 2028 because of filtration.

VI. Capital Improvement Plan Draft of BES, Bill Ryan, Chief Engineer, Bureau of Environmental Services

Bill Ryan gave the members an overview of recent capital projects at BES and [presented](#) the draft FY 2018-19 plan. Bill said that during the 20 to 25 years that the bureau was working on CSO, they delayed maintenance on rest of the system. He also directed the members to the [summary](#) sheet that was provided prior to the meeting.

He began with a summary of the assets of the BES; valued at about \$13 billion. Each year the city assesses its capital assets and Bill talked about some of the information from that report. About \$2 billion of the bureau's assets are in very poor to poor condition and the condition of more than \$2 billion of capital assets is unknown. He said that most capital investments are spent on system renewal; system enhancement (treatment plant); system expansion; and efficient operations (natural gas program). All the bureau's investments come from system plans. The bureau is currently working on pump station improvement plans and a surface water plan.

Bill gave the members an overview on how projects are selected. The bureau has a cross-bureau scoring committee that ranks projects by several evaluation factors and are prioritized based on ratings. New projects can push out other projects that were already in the queue based on

annual review of priorities. He gave an example of the changing priorities with the pipes downtown. The bureau is currently lining even those that look fine because they have been found to be very fragile.

Bill said the current CIP priorities are rehab, repair, maintenance, and capacity expansion at the treatment plants; pump station improvements; pipe rehab; and other large projects like Capital Highway, Hillsdale Crest, and Combine System outfalls. The challenge is there is more work than funding. 30% of pipe is over 80 years old. Cost growth occurs across the programs as does scope increase. He said the main drivers behind cost and scope growth are needs at the two plants, increasing amounts of rehab work, and improvements needed at pump stations.

The bureau approach is to stay within the forecasted 2.95% annual rate of increase. The bureau knows it needs to do \$150 million worth of work and are identifying ways to stop coming in under budget. To reach the capital delivery output goals, Bill said the bureau has shifted from the 5-year glide path proposed last year to a 10-year glide path. The bureau needs to do treatment plant work first and can stretch out pipe rehab and focus on mains.

Bill then talked about some of the high-profile projects. The bureau is reprioritizing work on large mains, including ones under I-5. In the outyears, there are seismic improvements for both treatment plants; the addition of secondary clarifiers at Tryon Creek; redirect flow under interstate 84; replace pipe on Northeast Fremont and Central Tanner; and reduce nuisance flooding near Johnson Creek.

Mike W. asked about underspending in FY 2016-17. Bill responded they had budgeted \$114 million and spent \$94 million. Jonas clarified that they are not collecting rates for the \$114 million. They build rates assuming some amount of underspending. Mike W. followed up with a question about how staffing issues will affect spending. Jonas said that as they've spending down less, they've adjusted their rate increase. Mike W. asked if the bureau had looked at shifting expenses to capital that can be capital and Jonas said they capitalize everything that can be capitalized.

VII. Public Comment

Lorie McFarlane talked about the recent Water bureau exceedance for lead and how she got a notice in her water bill that talks about the filtration plant but the bill insert doesn't talk about cryptosporidium.

She was glad to see that the PUB had asked good questions about lead at the last meeting. She said sometimes what's not talked about is most important – Portland's chronic and elevated lead levels. In April, Yone had provided an overview and said that the bureau had an exceedance in October 2016. They made changes to their optimized corrosion control treatment plan but had exceedances 9 times since 1997. Lorie said the Lead and Copper Rule was unique because it extends to customer pipes. She said other cities minimize lead exposure at the tap but Portland doesn't do that. She doesn't think it's fair to fault customer plumbing nor should customers be exposed for the next decade. She feels like not enough is being done. She would like to see budget reallocated to provide filters to customers.

Rob would like to understand better on topic of lead. This issue won't go away until it's fixed. He would like to see more education component under the Lead and Copper Rule and components of testing for home fixtures. He's like a discussion on a better education program that can be done in regards to flushing and minimizing exposure. This will continue to be a public health concern and he don't want to have to fall off radar.

Lorie also talked about particulate lead random release.

VIII. Discuss next Meeting Agenda

December 5, 2017

Location: 1900 Building

3pm: Budget 101 training/refresher

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

December 19, 2017

Location Pettygrove Room, City Hall

10am Budget Refresher

11am Board Meeting

IX. Meeting adjourned at 1:05pm.