

Portland Utility Board Budget Subcommittee

December 19, 2017, 11am – 1pm
111 SW Columbia Street Room 503

Attendees:

PUB Members:

Alice Brawley-Chesworth, ex officio
Ana Brophy, ex officio
Allan Warman
Mike Weedall
Robert Martineau
Scott Robinson

Staff:

Cecelia Huynh (Director of Finance and Support Services, Water)
Jonas Biery (Manager Business Operations, Bureau of Environmental Services)
Liam Frost (Management Analyst, Portland Water Bureau)
Todd Lofgren (Senior Policy Advisor, Commissioner Fish)
Ken Bartocci (Principal Financial Analyst, Bureau of Environmental Services)
Edward Campbell (Acting Communications Director, Portland Water Bureau)

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

Public:

Janice Thompson (Citizen Utility Board)
Carol Cushman (League of Women Voters)

I. Call to Order, Introduction of Any Audience Members

Allan called the meeting to order. He began with an overview of the settlement of the Anderson lawsuit which was announced on Friday. The General Fund will pay \$3 million in attorney fees by the end of the calendar year and \$7 million to the utility funds over a period of time. Those payments will be worked out during the annual budget process. Allan noted that Melissa had received many questions about the settlement from members and a request to have someone from the Mayor's and/or Commissioner's Office attend the next meeting to talk about how the settlement is in the best interest of the city. Allan also noted that it's likely members will want to discuss how residents will see the benefit of the reimbursement.

II. Disclosures of Communications

none

III. Public Comment

Shedrick Wilkins talked to the members about groundwater and his desire to have the water unfiltered from Bull Run. He doesn't think there is an issue with water from the Columbia

Wellfield but did talk about radioactivity from Handford. He also said that he agreed with many of the things Scott Fernandez has said and doesn't think the city will spend money on filtration.

IV. Bureau Updates

Update on Compliance Agreement with Oregon Health Authority

Edward Campbell, acting Communications Director for the Water Bureau, provided the board with an update on the negotiations with OHA for a compliance agreement related to *cryptosporidium*. He said the agreement had been reached and an announcement would be made later in the day. The agreement includes a deadline for the Water Bureau to build the filtration plant: September 30, 2027. It also includes interim measures for public health; most of which have been employed for the past several years. It also includes additional ones around public notice and information that will be shared on the website.

Alice asked if the agreement includes steps that would need to be taken if the current *cryptosporidium* detections continued in the future. Edward said there is an ongoing conversation about notification requirements with OHA and EPA if it were determined they posed a public health risk. At this time, OHA has determined there is not a risk to the public. They worked with Multnomah County to see if there was an increase in related illnesses this spring but there's no evidence of an uptick.

Mike W. asked if there were any theories for the positive test results this year. Edward said its very likely *cryptosporidium* has been present forever. The bureau has increased monitoring to comply with the variance, maybe at the point when applying for variance, it was a period of low incidence; and now we are in a time of increased incidence.

Scott asked if the agreement forces the city down a path for treating for *cryptosporidium* even if there is never a finding of the type that poses harm to humans. Edward said there is no option in the agreement for the city to NOT build the treatment plant, regardless of future testing results.

Rob asked if the testing was better now than in previous years and Edward said the bureau is testing more frequently; the testing is not necessarily better; just testing more.

Water Bureau Update on Budget Requests

Cecelia Huynh, Director of Finance and Support Services, Portland Water Bureau, provided an update on the bureau's budget request for FY 2018-19. Cecelia provided the following updates on the requests:

- They have received the interagency agreements from other bureaus and are reviewing and analyzing them now.
- They are also considering the impact of the DCTU contract recently agreed to by the city. That contract includes salary increases beyond COLA for this year and many of the Water Bureau staff are members of trade union. As agreed to, some specific classifications of workers will get 3-5% increases; everyone else got 1.6% on top of COLA. There are also provisions for increases to certification pay. Scott asked about the outyear impacts and Cecelia said they are still looking at it but the agreement includes a 1% min to 5% max. Next year will be 3.8%.

Cecelia then talked about the retail rate forecast and the factors that go into it including wholesale rates and transfers resulting from the Anderson lawsuit. Allan asked about the split for the Anderson lawsuit and Cecelia said \$5.5 million for Water and \$1.5 million to BES. She also said that labor costs are higher than what they were projecting earlier in the process and will have an impact on rates if the goal is full cost recovery.

Scott asked how are the bureau plans to use the Anderson funds and Cecelia said it will be treated like the rate stabilization subfund; it will smooth rates. The bureau isn't planning to use it to pay for specific expenditures per se.

Bureau of Environmental Services Update on Budget Requests

Jonas Biery, Business Services Manager, Bureau of Environmental Services, provided an update on the bureau's budget request for FY 2018-19. He said there was no change to prioritization of the packages from when they had been presented to the board at the last meeting. Jonas provided the following updates on the requests:

- There are no expected changes to FTE requests.
- Work still needs to be done to balance the adjustments to base package due to changes to multiple funds including the environmental remediation fund.
- The bureau is adding two new vehicles; one in service delivery and one in CIP.
- They found a \$50,000 ongoing reduction that will be reflected in revised draft.
- Some vehicles will be moved to vehicle package from service delivery
- The information so far on the PBOT IA shows an increase proposed within expectations which has already reflected in the forecast.
- Fleet and facility cost IAs were within increase expectations.
- PERS, COLA and health care increases (above forecast): \$750,000 of additional ongoing has been put into forecast.
- General Fund Overhead (GFOH) increases (above forecast): \$250,000 additional ongoing
- System Development Charges are about \$1 million higher than forecast, based upon actual FY2017-18 revenues to date.
- BES has fewer DCTU employees than Water and they had anticipated an increase in the forecast. They don't expect the final agreement will have a material effect on the forecast.
- There are still some unknowns including costs that may be imposed by other bureaus' decision packages. There are at least 3 being considered by the Bureau of Technology Services that could have cost implications for BES.

Jonas then told the members that he thinks the annual rate of increase will be around 3%. There may be additional refinements to the forecast related to SDCs before the rate ordinance is considered by Council. There are plans for the next bond sale. The forecast currently assumes conservative finance rates so the bureau may benefit from lower than forecast finance rates. Jonas also noted that the federal reform of tax policy would prohibit advance refinancing. The bureau doesn't assume advance financing but does plan on it. Scott asked a question about the forecast and Jonas said they build the forecast by net proceeds costs. Allan asked about the total PBOT IA amount and Jonas and Ken replied it was around \$23 million but would provide the specific information after the meeting.

Members asked both bureaus questions about their requests and updates.

Scott asked both bureaus if they include an inflation assumption for External Materials and Supplies. Cecelia said no and Jonas said they have an inflation assumption and would provide it after the meeting.

Allan asked Cecelia what the annual increase for retail rates were likely to be and Cecelia said between 7.5% and 8%.

Allan asked if the Water Bureau had job descriptions prepared for their requested FTE and Cecelia said they could provide generic descriptions. Allan asked if there was any more granular information available and Cecelia said they'd get something together.

V. **Board Discussions**

Melissa reminded members that the co-chairs sent a letter requesting additional information to the bureaus. Just prior to the meeting, she received an email from Liam with a response from the bureaus as well as a memo from Janice Thompson from the Citizens Utility Board of Oregon. Neither bureau representatives nor Janice opted to talk about the memos. Janice said she was happy to answer any questions.

Since both items were just received, Allan gave members some time to read and ask questions. Mike wanted time to consider the responses. Alice said she thought the purpose of the request was to see what DPs would come out to reduce rates; but response seems to suggest that would not be possible.

Cecelia said that assuming BES keeps their rate at 3%; Water would have to do all of the cut to get down the combined rate down to 4% or 3%. They would need to cut existing programs and staff.

Scott asked the bureaus how much of the capital plan to they assume will spend. Jonas said BES assumes 90% and Cecelia said Water assumes 100%.

Allan said he appreciates members wanting more time to read the directors' memo more thoroughly. He then turned to the comments submitted by Colleen that combined rates went up more than 60% from 2007 to 2016. Rate payers have seen a substantial rate increase and Allan this it's important to consider and review Colleen's thoughts.

Scott noted that thematically there is a thread to zero in on: there is the big bang theory that when facing a new requirement, bureaus may choose to staff it immediately. For example, with filtration, should the bureau build a team right at the start or bring them in over time? He asked whether there were related contract dollars reductions for the decision packages that add FTEs. Where the bureau is requesting to replace contract services with FTE; do the contract dollars actually go away in the budget? It's not clear in the document whether the contract dollars stay level or decrease because of the FTE requests.

Scott also asked Todd what lies underneath the Commissioner's motivation to give guidance that the combined annual rates of increase should be below 5%. Todd said the guidance was about value. It's not a magic number. He said the Commissioner had looked at bringing the high rates down previously. Filtration was a consideration. He said it's not been the direction of Council to cut programs with filtration in the pipe line. He said Council is approving projects as they come up as council calendar items without asking for reductions. Scott said that those however are discreet decisions and the Council isn't considering the larger budget picture with those discreet project approvals. Todd said there is a limit to the rate increases somewhere. The Commissioner decided 5% was reasonable. He said he thinks everyone is on board with the prioritization exercise. Todd said the conversation should be about tradeoffs.

Alice agreed that prioritization was a helpful conversation. She wasn't sure if comparing to inflation was best. It assumes that the bureau is able to continue doing the same things over time. She raised the concerns about prior underinvesting or new regulations and requirements. She thought that if the bureau were told to keep doing the same thing, inflation would make sense. Allan commented that was an internal view from the bureau's perspective but he thought the board should have more of an external view for ratepayers and Alice stated she also was a ratepayer.

Allan asked how the bureau's proposals would speedup investments. Jonas said BES is ramping up its replacement schedule, wanting to increase capital output within 10 years to increase investment for the rehab/replacement schedule. The plan is that in 10 years that will get BES to where it needs to be but it will take the bureau a long time of increased investment to get catch up. He said it's really a 40-year investment. If the bureau were to decrease rates of increase now, that work would be delayed.

Rob said that if the bureaus collected less in revenue – lower rates of increase – it would hurt the capital plans. He thought maybe the push back should be on Council to say that Council's directive to increase rates by 5% is outpacing inflation. Residents aren't receiving CPIs that high. It's an affordability issue.

Members talked about the next several meetings: budget subcommittee meeting on January 3, full board meeting on January 9, communication's subcommittee meeting on January 18 and a potential for additional full board meeting, if necessary, on January 18.

Ana stated she like the Water Bureau's format for the DP summary and asked if BES can do the same.

Liam asked for clarification for drafting the board letter. There will be several people at the bureaus out over the next two weeks. They may not be able to get answers by the January 9th meeting. Scott agreed it's an aggressive schedule. Melissa reminded members in the past that January letter had been a high-level commentary on the bureau's budget direction. Jonas said BES would be able to turn around questions prior to the meeting.

Melissa queried members on preferences for meeting space. Todd has offered to help find meeting locations. Rob offered a bog conference room; Scott offered to check at METRO; Allan would look at PGE.

--DRAFT--

The meeting adjourned at 1 PM.