

January 5, 2018

## **Bureau of Environmental Services - Responses to Portland Utility Board Questions of December 19, 2017**

### **Questions for Both Bureaus**

1. *Often when proposed reduction targets are posed, it is typical that programs as a whole get prioritized. Another approach is to pose a scenario where all program areas and categories get a slight budget decrease. Given Rob's point today about setting a target for a rate increase equal to inflation or CPI, please explain why a 3% rate cap for each Bureau could not be spread across all programs, cost centers, etc., so the resulting reduction would occur more on the margins versus cutting programs whole cloth or making dramatic reductions in a few programs? For example, perhaps a few vehicles, travel, or such might absorb such a 3% cap leaving the program or other activity largely intact.*

**BES Response:** BES is currently planning and forecasting with a targeted/assumed maximum rate "cap" (or maximum increase) of 3% annually. Beginning with the FY2017-18 Budget and continuing with the FY2018-19 budget request currently in progress, BES has targeted a maximum annual rate increase of 3% or lower for every year of the entire long-term forecast.

If rate increases below the 3% level were to be targeted, cost decreases would likely be shared among multiple workgroups and programs. Across-the-board reductions spread unilaterally bureauwide would be difficult to accommodate as workgroups/programs have varying levels of discretionary resources, and reductions could have vastly different impacts among the bureau's various work areas.

2. *For each Bureau, assume the requested FTEs are reduced by 50%. How would each of the remaining FTE be allocated among Bureau programs and activities? What reductions would be made to programs/activities in 2018-19 for those programs that don't receive the new FTEs? Which activities might still be continued using temporary contract labor instead of adding city FTE?*

**BES Response:** Please see the Attachment titled "BES FTE Summary - 50% ranking 010518.pdf" which indicates hypothetical FTE reductions and brief analysis of potential impacts to programs and activities assuming the bottom 50% of the requested positions did not proceed.

Nearly all of the positions in the bottom 50% could be accommodated with contract staff. However, using contract staff to meet *long-term* bureau needs does not optimally achieve the targeted service level objectives, and can be more expensive over the long-term due to contractor management, training requirements and turnover.

If negative service impacts and cost/risk offsets are ignored, eliminating 50% of the requested FTE would reduce the projected annual rate increase by approximately 0.05% (i.e., from 3.00% to 2.95%), with a corresponding impact of less than \$0.50 per year for the average single-family residential ratepayer.

### **Questions for Portland Water Bureau**

3-25.

**BES Response:** n/a

### **Questions for Bureau of Environmental Services**

*26. Would BES provide its prioritization summary in the same format as the Water Bureau submission?*

**BES Response:** See attached document titled “Development Draft Decision Packages to PUB 1-5-2018.pdf”. Note that this update also includes changes to the Decision Package totals as discussed at the PUB Budget Subcommittee meeting on December 19, 2017 (see footnotes at bottom of attachment).

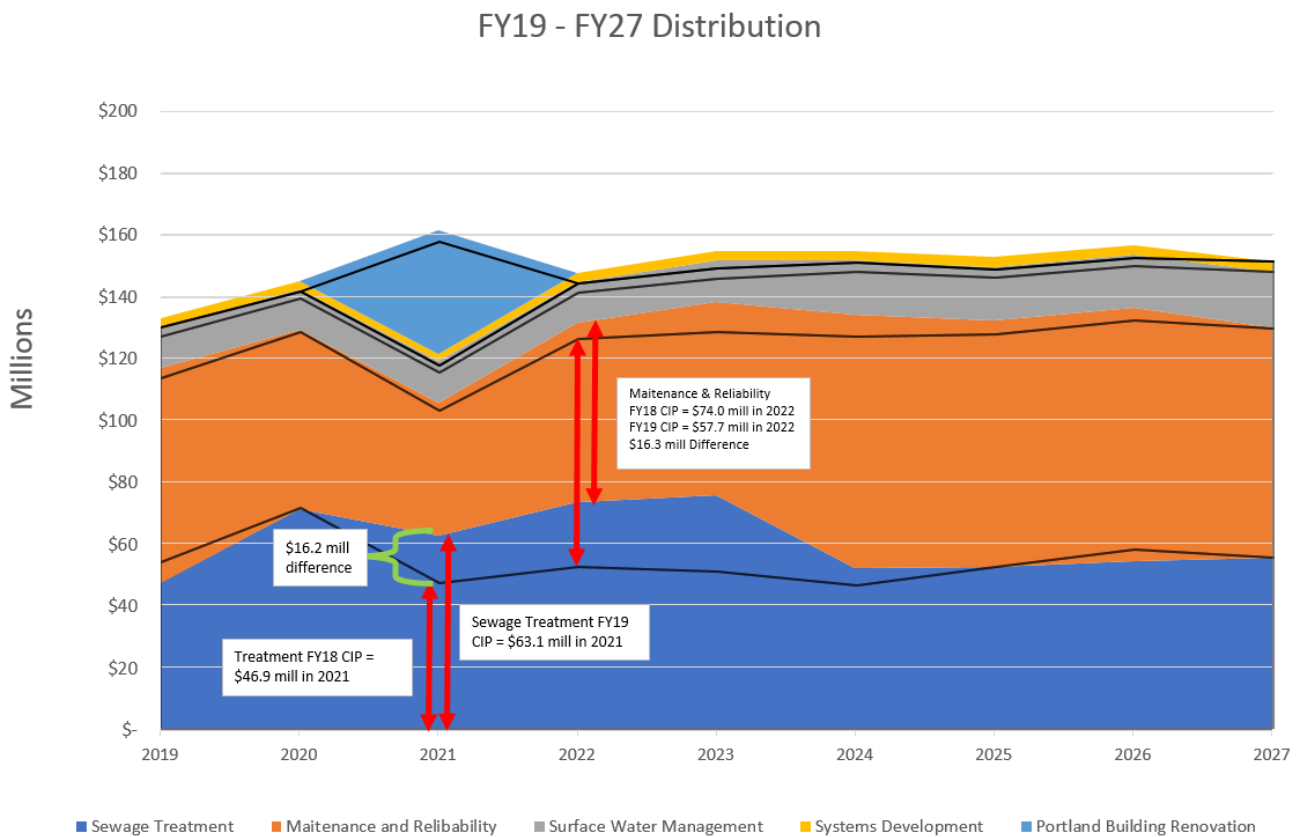
*27. At the December 5 Board meeting, Director Jordan told PUB that while last year the bureau initially thought it could double capital output to \$150 million in 5 years, with better information, they now think the glide path looks more like 10 years to that level. The initial draft CIP proposal includes capital requests of roughly \$150 million starting in 2020. Does this reflect the new thinking on how long it will take to double capital spending?*

**BES Response:** Increasing CIP output will require increases in staffing/contract resources. Additionally, BES has prioritized CIP process and organizational changes to better facilitate CIP planning, prioritization and delivery. Implementation of process improvements will need to occur incrementally over the coming years due to both resource constraints and organizational realities. Acquiring the resources within budget/rate constraints will take longer than expected due to many competing priorities bureauwide, and the bureau’s commitment to maintaining annual rate increases no greater than 3%.

As such, the “ramp up” of CIP projects to replace hard infrastructure, as well as to accommodate future stormwater system projects that will result from the Stormwater System

Plan, will occur over a longer timeframe. Simultaneously, the bureau has accelerated investment in critical infrastructure at the two treatment plants. The net effect of this – slowing the “ramp up” and accelerating the treatment plant work – has resulted in a 5-year CIP that on total looks similar to the previously estimated CIP. It is important to note that the ramp up will continue in years beyond the 5-year CIP, and amounts continue to be refined as asset condition work continues systemwide.

The chart below shows the FY2017-18 CIP projected over 10 years (the black lines) as compared to the FY2018-19 CIP projected over 10 years (the colored areas). The table includes highlights to help visualize the shifts between the Sewage Treatment projects (previously \$46.9 million, accelerated to \$63.1 million in FY2020-21) and Maintenance and Reliability (stretched out to begin large annual increases in FY2023-24 instead of the previously targeted FY201-22).



28. *What would the impact be of hiring 1 Tech II, seeing how the workload changes, and then considering another Tech II position next year?*

**BES Response:** Roles and responsibilities have already been streamlined to the greatest extent possible, and based on current (2017) development rates and trends, 2 FTE are needed in the FY2018-19 budget in order to meet workloads. Plan Review has not been able to rebound from

the large bubble of plans submitted in late 2016 and early 2017 and is not able to maintain pace with current BDS permit intake. The rate of development in calendar 2018 and beyond is uncertain, so the consequences of continued insufficient staffing is unknown. However, Plan Review will continue to miss targeted turnaround times if only 1 FTE is allocated in the FY2018-19 budget, which would be inconsistent with the Mayor's priority initiative of expediting plan reviews and permit approvals. Without additional staffing, more responsibilities will be eliminated and reviews scaled back, resulting in a much more difficult workload by the Compliance Division to enforce against industries and commercial facilities for inadequate construction.

*29. What would be the (negative?) service effects of only hiring 3 Pollution Prevention positions and 1 Wastewater position in Service Delivery?*

**BES Response:** Please see the Attachment titled "BES FTE Summary - 50% ranking 010518.pdf".

Impacts of not proceeding with the 3 Pollution Prevention positions that would be excluded (one Tech II in Plan Review, a Laboratory Specialist in the Nutrients Section and a Tech I in the Maintenance Inspection Program) would include continued delays in permit processing, lab hold times and inspection response. Failure to improve these services will negatively impact City permit and lab customers, and increase risk of MS4 permit non-compliance.

Not proceeding with a Wastewater Operator II would result in increased overtime as we would need to redeploy an Operator from another work unit to dredge the lagoon, while continuing to meet the 24/7/365 demands in two treatment plants. An alternative could be to delay dredging, saving marginal dollars in the short term, but with the trade-off of higher future costs and increased risk to our land application contractual obligations and existing partnerships.

*30. What would be the (negative?) effects of hiring only 3 engineers, 1 watershed position, and 1 wastewater position in CIP Planning and Delivery Improvements?*

**BES Response:** Please see the Attachment titled "BES FTE Summary - 50% ranking 010518.pdf".

The impact of not proceeding with the Business Systems Analyst for SWSP Asset Condition work would result in delays to assembly and adequate management of data that will be essential to analysis and decision-making that will drive future investments in surface water management Citywide. This position is critical to the bureau's longer-term objective to more efficiently collect, manage, and utilize data bureauwide. Failure to invest in these positions will exacerbate the data challenges, resulting in a problem that is more complex and costly to correct over the long term

The impacts of not proceeding with selected Engineering positions will result in one of two negative outcomes. One outcome (not preferred or planned) would be to utilize contracted

staff – which would result in either new cost for that contract work, or delays to other work that is currently contracted. The other potential negative outcome would be that the bureau’s efforts to improve the CIP planning and delivery process will be significantly delayed, resulting in continued deferred system investment and increases to future long-term costs and risks.

*31. The Affordability 2.0 line item appears to only include the changes related to multifamily assistance. How will the bureau budget for the foregone revenue related to the other components of the Water Bureau plan?*

**BES Response:** The BES Affordability 2.0 budget line item only includes the expenditure component (transfer of funds to HomeForward) of the proposed low-income utility bill assistance package. The remaining low-income program enhancements will result in reduced revenue to BES as a result of increasing discount availability. Estimated revenue adjustments have been accounted for in the current rate forecast and will be implemented during FY2018-19 rate development. BES will annually evaluate actual revenue impacts, and adjust the long-term rate forecast accordingly as needed.

**Additional Questions (from 12/19 PUB meeting):**

*What was the total amount of the PBOT/MO Interagency in FY2017-18, and how much is the increase in FY2018-19?*

**BES Response:** The budgeted PBOT/MO interagency amount for FY2017-18 was approximately \$23.0 million. The projected amount for FY2018-19 is \$23.5 million, an increase of approximately \$470,000 (slightly lower than the bureau’s forecast expectation). It is possible that the amount could be modified in January when the final FY2018-19 overhead rates are established by the City.

The PBOT/MO change includes an assumption of 4 new PBOT staff to inspect sewer and stormwater systems. This cost was offset by a reduction to overtime and materials to keep the total interagency amount in line with prior year base charges. BES is supportive of this service delivery improvement. If staff are not approved in PBOT’s budget request, the interagency amount is assumed to remain unchanged as overtime and materials would be added back, in order to continue the work under the interagency.

*How does BES account for Materials and Service (M&S) inflation in the forecast?*

**BES Response:** BES receives forecast M&S inflation figures from the City Budget Office, and applies those inflationary rates to expenditures in the financial forecast.

*In circumstances when newly requested FTEs overlap with existing contract staff, are the contracts retained (or reduced/eliminated)?*

**BES Response:** For FY2018-19, the requested positions do not directly result in corresponding decreases to existing contracted services. However, having qualified in-house staff provides opportunity to better assess the optimal mix of internal work versus contracted services over the longer term.

None of the requested BES positions in FY2018-19 are contract conversions. For some positions (typically within the Wastewater Group and Engineering Services), not filling these positions could result in additional contracted services if essential work elements need to be completed on a timely basis and employee resources are unavailable. Those decisions would be made on an as-needed basis.