

To: Portland Utility Board (PUB)  
From: Melissa Merrell, PUB Analyst  
Re: Discussion Guide FY 2018-19 Budget Development PUB Letter for City Council  
On: January 4, 2018

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Based on the information presented by the Portland Water Bureau and the Bureau of Environmental Services and your discussions to date, I've put together the following discussion items for your meeting on January 9. These are provided to help you craft the letter to be submitted by the board in its role as the Budget Advisory Committee for the bureaus.

This letter will be submitted in compliance with City practice for budget advisory committees, and in response to the specific duties of the PUB to:

“advise the City Council, on behalf of and for the benefit of the citizens of Portland, on the financial plans, capital improvements, annual budget development and rate setting for the City's water, sewer, stormwater, and watershed services. The Board will advise Council on the establishment of fair and equitable rates, consistent with balancing the goals of customer needs, legal mandates, existing public policies, such as protecting water quality and improving watershed health, operational requirements, and the long-term financial stability and viability of the utilities. (3.123.010)”

To that end, the Portland Utility Board considers the following values when providing input and making recommendations to the Council:

- Affordability
- Protection of public health
- Regulatory Compliance
- Equity, including assistance to low-income residents
- Service delivery
- System resiliency
- Transparency and public engagement

These values are not presented in any particular order and tension can exist between these values (e.g., affordability and service delivery).

### **Topic #1: Annual Rates of Increase**

- A) The bureaus submit budget requests that comply with guidance from the Mayor and Commissioner-in-Charge. City Council ultimately approved those budgets and the necessary increases to rates to support those budgets during the annual budget process.

- B) Annual rates of increase for the typical single-family household in Portland over the past 10 years have increased more than three times faster than commonly used benchmarks for increases including inflation, median household income, median family income, and changes in per capita income.
- C) There are challenges to using inflation or other economic benchmarks when considering increases in utility charges. Increasing regulatory requirements and past underinvestment may mean that utilities need to invest more than inflationary increases would permit.
- D) While a lower rate of increase this year would translate to savings of \$1 or \$2 monthly for the typical single-family household, those small amounts compound over time. Given the City Council approved rates of increase over the last 10 years, monthly typical single-family household bills are \$25 more than they would have been if rates had increased in line with inflation over that period.
- E) Acknowledging those limitations, [most] [some] PUB members challenge City Council to recognize the scarce resources of many Portlanders and require the bureaus to limit the annual rates of increase.

## **Topic #2: Budget Prioritization and Rate Options**

- F) The Mayor's FY 2018-19 budget guidance directs the Portland Water Bureau and the Bureau of Environmental Services (BES) to identify efficiencies and reductions to limit rate increases. It further directs them to work with the PUB to develop prioritized reduction options for Budget Committee and City Council consideration.
- G) The co-chairs requested the bureaus prioritize requests necessary to comply with the following categories: regulatory compliance, maintenance/improvement of asset health, bureau equity goals, and alignment of bureau activities with strategic planning goals. In addition, they requested the bureaus include information on the rate impact of those items and the anticipated effects on service level and performance if they were to not be funded. This information allowed the board to have substantive deliberations about the tradeoffs of the programs and the additional burden on Portland's utility customers.
- H) Budget guidance provided to the bureaus from Commissioner Fish on November 20, 2017 included an expectation that the requested budgets will "reflect good value at a fair price in any proposal for a rate increase. As in recent years, the proposed combined retail rate increase shall be below 5%."

- I) To demonstrate the relative priority of requests and the benefits that Portland customer would receive from the additional burden of increased rates, the co-chairs requested the bureaus to identify line items in their requested budgets that would not be funded if the City Council were to approve combined annual rate increases of 3% and 4% in addition to their planned requests in line with the Commissioner's guidance of a combined increase below 5%.
- J) PUB members recognize the amount of work such exercises require and appreciate the time and consideration of the many staff required to provide responses. [The bureaus provided (in depth) (high-level) (detailed) information on the budget items that would and would not be included in their budgets if combined rates of increase were constrained to (3%) and/or (4%) and (if they were limited to the number of new staff authorized by City Council).
- K) [Most] [Some] PUB members found this exercise (valuable) (not valuable) in articulating the investment and benefit for Portland residents.
- L) The board will reserve its recommendation on individual decision packages until after the City Budget Office reviews and recommendations are complete. However, [Most] [Some] PUB members support requests in line with a (X%) combined rate of increase.
- M) [Most] [Some] PUB members encourage the bureaus to clearly articulate the value of the investments over inflation and benefits that the residents of Portland receive.

### **Topic #3: Affordability**

- N) The affordability of the combined water, sewer, and stormwater bill is an ongoing concern for PUB members. The combined average monthly bill for the typical single-family household for FY 2018-19 for water and wastewater will be \$xxx, if requested rates of increase are approved. This represents about [2.0%] of median household income for the City of Portland (and well below 4.5%, at which point the EPA considers it unaffordable).
- O) Flat local wages for a portion of city residents and rising housing costs exert pressure on the perception of affordability.
- P) [Most] [Some] PUB members consider a component of affordability to be reasonable costs to customers with known and predictable rate impacts. Reasonable must be viewed in context of accumulated costs over time.
- Q) [Most] [Some] PUB members encourage both bureaus and the City Council to continue to evaluate the tradeoffs and choices of investments to keep affordability concerns a priority.

- R) The proposed annual rates of increase in the 5-year financial plan for the Water Bureau have increased from the plan included in the FY 2017-18 Adopted Budget. The major driver for this increase is the direction from City Council to pursue a filtration plant to address regulatory requirements related to *cryptosporidium* and other potential risks to the Bull Run Watershed. PUB recommended the filtration option and supports that decision of City Council.
- S) Resolution 37309 agreed to by City Council on August 3, 2017 included direction “that during the annual rate-setting process the Portland Water Bureau will make every effort to minimize rate impacts while following the intent of this resolution.”
- T) [Most] [Some] PUB members requested information from the Bureau on how they have minimized that impact and the bureau identified some work that would be delayed or foregone.
- U) Recognizing that the filtration plant will be a substantial capital investment that can’t be fully absorbed by the existing forecasted resources of the bureau, [Most] [Some] PUB members feel that as currently presented, the bureau is asking Portland residents to pay too high a portion of those new costs and request the Water Bureau further look for efficiencies, vacancies savings, or foregoing lower priority activities within their existing budget to further mitigate the ongoing cost of filtration. In general, [Most] [Some] PUB members recommend the bureaus use these existing management techniques available to them to identify and reallocate existing resources for new priority activities before requesting additional rate resources.
- V) Rates are driven both by capital investments and operating budgets associated with staffing. The PUB is closely reviewing BES’s request for 22 new positions and Water’s request for 21 new positions, given the long-term cost of PERS assigned to each new full FTE.

#### **Topic #4 Equity and Assistance Programs**

- W) The City Council resolution that directed the Water Bureau to pursue filtration also directed “that the Portland Water Bureau will seek to optimize and enhance its discount programs to lessen the impact of rising water rates on low-income customers.”
- X) The bureaus have multiple programs to provide financial assistance to low-income Portland residents. Compared to other utilities, these programs are generous in their construction, though few and decreasing numbers of residents are participating in the programs.

- Y) [Most] [Some] PUB members feel these assistance programs are vital and commend the work of the bureaus to improve outreach and scope of the assistance programs.
- Z) [Most] [Some] PUB members raised concerns about the low levels of participation. Overall, these help a relatively small portion of residents in need. [Most] [Some] PUB members support serious consideration of overall rate constraint to lessen the impact to all residents.
- AA) The recent audit of assistance programs raised several questions about the connection between customer data and assistance provided. Members asked the Water Bureau how data about customers inform the proposed changes. Based on the responses received, [most] [some] PUB members [support the work as provided] [have concerns] [recommend further analysis].
- BB) Members also asked how the proposed changes address the equity concerns raised in the audit that using an across the board assistance amount (currently \$150) regardless of the size of the bill or household, provides inequitable assistance. Based on the responses received, [most] [some] PUB members [support the work as provided] [have concerns] [recommend further analysis].
- CC) Members asked if the bureau analyzed changing assistance provided to individual customers and the effect on foregone revenue. Based on the responses received, [most] [some] PUB members [support the work as provided] [have concerns] [recommend further analysis].
- DD) The audit also recommended that the bureau take steps to ensure that general information about payment assistance is easy to find and understandable. Members asked how those concerns being addressed. Based on the responses received, [most] [some] PUB members [support the work as provided] [have concerns] [recommend further analysis].
- EE) [Option: Summary statement on all proposed changes] Members asked several questions about the proposed changes to assistance programs. Members are supportive of changes but have concerns about some of the proposals and will continue to work with the bureau during the budget process to address those concerns.
- FF) [Option: statement on individual change proposals] One specific component is to create a new program to provide assistance to customers living in multifamily units. Targeting assistance to these residents has been an ongoing challenge and members commend the bureau for looking for creative solutions. However, members raised several concerns, including the legal standing for transferring rate funds for eviction assistance, the number of residents who would benefit, and how the costs for this assistance would increase the cost burden on the low-income residents who do not receive assistance. As with the other components of assistance programs, members will continue to work with

the bureau during the budget process to address those concerns but do feel strongly that any approved program should include performance metrics for accountability.

#### **Topic #5: Centralized Services and Citywide Priorities**

GG) Citywide Coordination of Equity Resources. Improving equity has been identified as a citywide priority. The City coordinates equity policy with a centralized approach through the Office of Equity and Human Rights. Identification of goals and actions are decided in a decentralized manner by individual bureaus. [Most] [Some] PUB members continue to encourage the Mayor and City Council to engage in a Citywide conversation about how the City is managing human resources invested in equity work across the city. In the FY 2017-18 budget, the City Council authorized an FTE to manage BES's equity work. That position has recently been filled and the PUB looks forward to working with the manager on implementation of the BES equity plan. The FY2018-19 budget proposal from the Water Bureau includes a request for a similar position. The additional FTE demonstrate the bureaus' commitment to equity but impose additional costs on Portland residents. The City should work to ensure that those investments are incorporated into a well-frames and measurable citywide strategy.

HH) The bureaus rely on central services provided by the Office of Management and Finance for human resources, procurement, and other centralized support functions. The PUB has heard from both bureaus that they struggle securing OMF services for recruitment, hiring, and procurement. The proposed bureau budgets include requests for staff to supplement or facilitate some of these services. In its communication to the City Council during the Fall budget monitoring process, the PUB included as one of its principles for review that the bureaus should refrain from building internal capacity for services that should be provided by other City agencies and should opt for other models including embedded staff instead. [Most] [Some] PUB members continue to support this principle. OMF is currently working to improve the recruitment and hiring process. [Most] [Some] PUB members look forward to seeing those improvements and encourage OMF to work with the bureaus to identify and implement improvement to the procurement process as well.

#### **Topic #6: Settlement of Anderson Lawsuit**

II) In December, the City Council approved a settlement of the lawsuit challenging the City's ability to expend ratepayer funds. As part of the settlement of the Anderson lawsuit, the City agreed to pay \$3 million in legal fees and reimburse \$7 million from the General Fund to the Water Bureau and Bureau of Environmental Services.

JJ) PUB members requested and received a briefing from the City Attorney's Office on how this settlement was in the best interest of the City and utility customers. [Most] [Some] PUB members [support the settlement] [raised concerns about...]

KK) Per the settlement agreement, General Fund reimbursement of \$5.5 million to the Water Fund and \$1.5 million to the Sewer Fund must be complete by September 30, 2019. While the reimbursement wouldn't be made until September 2019, identification of the General Fund sources for the reimbursement is likely to be part of City Council consideration during the FY2018-19 budget development process.

LL) The bureaus presented information to the PUB that they would include the one-time resources from the reimbursements in their Rate Stabilization Accounts to be used generally to smooth rates of increase in future years. While earmarking resources to specific activities limits the ability of the bureaus to direct funds to highest priority needs, given that the reimbursement stems from the questionable use customer funds, [most] [some] PUB members [feel the transparent use of these funds and communication to the public will be vital in addressing lingering concerns over stewardship of public resources. [Most] [Some] PUB members [strongly] [request] [encourage] the bureaus to [use these funds for specific items including X,Y,Z ] [Most] [Some] PUB members [strongly] [request] [encourage] the bureaus to [clearly communicate to the public specifically how the reimbursements will be used to benefit customers]

## **Topic #7: Strategic Planning**

MM) The PUB enthusiastically supports the roadmap laid out in the BES' new 10-year strategic plan and commends the bureau's staff and leadership for their work over the past two years to identify six core goals that will guide the bureau's work over the next decade. The PUB looks forward to working in partnership with BES to prioritize the strategic initiatives through the city's budget process and to craft metrics for measuring their progress towards achieving the outcomes identified in the strategic plan. The PUB will provide input on specific budget requests related to this work after the City Budget Office reviews and recommendations are complete.

NN) The Portland Water Bureaus has begun work on its Strategic Business Plan and the PUB looks forward to working with the bureau to provide input on that plan.

OO) [Most] [Some] PUB members appreciate the work that BES did to link their packages to their strategic plan. They look forward to seeing that connection be refined in coming years and hope to see the same with the requests from the Water Bureau as they complete their strategic plan.

## **Topic #8: Regulatory Compliance and Community Expectations**

PP) Both BES and the Water Bureau are heavily regulated by state and federal entities which limits the discretionary components of their respective budgets. However, the bureaus do have flexibility to decide how and in some instances when regulatory requirements are met. Going forward, [Most] [Some] PUB members ask the bureaus to clearly present in their budget requests those items that are regulatorily required at this time, those that can be implemented over time, and those that are related to or compliment regulatory requirements but would not jeopardize compliance.

## **Topic #9: Communications and Transparency**

QQ) In several past recommendations to City Council, the PUB highlighted that creating a culture of open, proactive communication, and transparency in both bureaus is ongoing work and PUB is sensitive to public perception of the bureaus.

RR) [Most] [Some] PUB members commend the bureaus for the work they did early in the budget process to provide information in similar formats. Easily understood and publicly assessible budget information is one way to strengthen and maintain the public trust and [Most] [Some] PUB members encourage the bureaus to continue that work.

SS) [Most] [Some] PUB members also encourage the bureaus to explore a combined communication strategy with consistent outreach and messages to the public.

## **Topic #10: Comments on specific budget proposals**

TT) The PUB views this opportunity to comment on the bureaus' budget submissions as the first of several touch points with City Council throughout the annual budget and planning processes. We look forward to providing you further input and recommendations after reviewing the analysis and recommendations of the City Budget Office and as the budget process continues through the spring.