

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 [-revised January 17, 2018](#)

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
- Efficiency of Operations and Value to Customers
- Assistance to Low-Income Residents
- Protection of Public Health and Watershed Health
- Improvement and Sustainability of Infrastructure
- Regulatory Compliance
- Equity
- Service Delivery
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- System Resiliency
- Transparency and Public Engagement

These values are not presented in any particular order and tension can exist between these values. PUB members particularly feel the tension between the need of the bureaus to increase capital investments to address system maintenance and the burden that ongoing annual rate

increases place on customers. PUB encourages and has asked the bureaus to make explicit the consequences of rate constraints to increase public awareness of this issue. PUB feels strongly that this needs to be a component of [the](#) public dialog to align expectations and find the optimal levels of investment for the bureaus and the public.

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 ~~ment~~ more than inflationary increases would permit. [An example is the requirement that Portland reduce combined sewer overflows which required significant rate increases over the last 10 years for capital investments but resulted in improved water quality in the Willamette River.](#)
- 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~~ [incremental increases](#) compound over time. Given the City Council approved rates of increase over the last 10 years, [typical](#) 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 the scarce resources of many Portlanders, PUB members encourage City Council to be mindful of the multiyear impact of rate increases and the cumulative impact on customers.

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. [Comment: combine F and H.](#)

- 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. Comment: combine G and I into one point since I think they are saying much the same thing
- 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 helpful information on the budget items that would and would not be included in their budgets if combined rates of increase were further constrained. PUB members found this exercise valuable in highlighting the tradeoffs of the costs of investment and benefit for Portland residents.
- K) The board will reserve its recommendation on individual decision packages until after the City Budget Office reviews and recommendations are complete.
- L) PUB members encourage the bureaus to communicate the value of the investments over inflation and benefits that the residents of Portland receive and are committed to the working with the bureaus to do so.

Topic #3: Affordability

- M) 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 \$113.30 if requested rates of increase are approved.

- N) There is no agreed upon standard for what rates are ‘affordable’ or ‘unaffordable’ for any given community. Rates may be measured against economic measures of inflation or changes in income. PUB considered several indicators in its discussions and agreed that budget requests should be viewed in context of core requirements to invest in infrastructure and meet new regulations. However, there is concern that the growth in the cost of service greatly exceeds growth in household income measures.

In the mid-1990s, EPA developed a benchmark to test rate impacts on customers. Using that guide, and determined that water and wastewater bills that are 4.5% or more increases above 4.5% of the median household income would have a large economic impact on residents on a community wide level. Including the proposed rates of increase, the typical single family residential utility bill would be about [2.0%] of median household income for the City of Portland. However, there are concerns regarding the use of a single indicator that may not reflect the impact to lower income households as well as economic and other trends over multiple years. Comment: is it increases above 4.5% or increases that push the bill above 4.5%.

- O) Flat local wages for a portion of city residents and rising housing costs exert pressure on the perception of affordability.
- P) 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 and the value of the service provided.
- Q) 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, supported by the PUB, to pursue a filtration plant to address regulatory requirements related to *cryptosporidium* and other potential risks to the Bull Run Watershed. The filtration plant will be a substantial capital investment that will significantly impact rates for many years.
- 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) 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) With City Council’s approval, both bureaus have added large capital projects in recent years and additional large investments limit the bureaus’ ability to respond to future needs. The PUB encourages both bureaus to look for efficiencies, vacancies savings, or

foregoing lower priority activities within their existing budget 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.

W) Budgeting is necessarily detailed due to the different drivers in expense versus capital items, as well as the myriad of assumptions that comprise each individual budget item. The PUB requests the bureaus to revisit those details with an approach of trimming as many individual budget assumptions possible so as to contribute to a rate projection that emphasizes affordability for all Portland residents. PUB Members encourage the bureaus to use the next four weeks to dialogue and explore jointly what detailed trimming of budget assumptions can be identified.

V)

Topic #4 Equity

W)X) In 2015, the City of Portland adopted citywide racial equity goals to end racial disparities within city government; to strengthen outreach, public engagement, and access to City services for communities of color and immigrant and refugee communities; and to collaborate with communities and institutions to eliminate racial inequity in all areas of government.

X)Y) The PUB supports these goals and looks forward to an update on the bureaus' implementation of their Racial Equity Plans that were created last year.

Y)Z) As part of its deliberation on individual budget requests, the PUB will consider the equity implications of requests and how increased resources will further the bureau and citywide equity goals.

Topic #4a Assistance Programs

Z)AA) 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."

AA)BB) The bureaus have multiple programs to provide financial assistance to low-income Portland residents. Compared to other utilities, these programs are generously ly

~~designed in their construction~~, though few and decreasing numbers of residents are participating in the programs.

~~BB)CC)~~ PUB members feel these assistance programs are vital and commend the work of the bureaus to improve outreach and scope of the assistance programs.

~~DD)~~ Members are supportive of improvements but have concerns about some of the proposals and will continue to work with the bureau during the budget process to address those concerns.

~~CC)EE)~~ PUB will weigh in on the proposed program as soon as we have a more complete understanding of its details

Topic #5: Centralized Services and Citywide Priorities

~~A)FF)~~ Several ongoing points of discussion with the PUB and the bureaus concern centralized services and citywide priorities. Centralized provision and citywide goals provide the opportunity for standardization and can result in efficiencies. There is also potential for duplication and fragmented implementation. Comment: Should we mention a couple of examples (e.g., Human Resources, Equity, and Communication) even though we discuss them in more detail below?

~~B)GG)~~ For example, the PUB has heard from both bureaus that recruitment, hiring, and procurement services negatively impact bureau operations. The proposed bureau budgets include requests for staff to supplement or facilitate some of these services. Generally, the board believes the bureaus should refrain from building internal capacity for services that should be provided by other City agencies. PUB members encourage the bureaus to continue to work with other city bureaus to identify and implement improvements to the provision of central services.

~~E)HH)~~ The PUB would like consideration of the budget and staffing impacts as citywide policies are identified and evaluated. In particular, the PUB continues 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. The City should work to ensure that bureau-level investments are incorporated into a well-framed and measurable citywide strategies.

Topic #7: Strategic Planning

D)II) _____ 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.

E)JJ) _____ 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.

KK) 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 to a more granular level in coming years and hope to see the same with the requests from the Water Bureau as they complete their strategic plan. PUB members encourage continued strategic alignment of the bureau budgets. Comment: Should we say that we would like similar formats for both bureaus and that both will be aligned with strategic plans?

F)LL) _____

G)MM) _____ The PUB encourages both bureaus to continue their strategic work and to craft metrics for measuring their progress towards achieving the outcomes identified in those plans. In addition, the PUB expects that the bureaus will include performance metrics for accountability when proposing new programs or significant changes to existing ones.

Topic #8: Regulatory Compliance and Community Expectations

NN) _____ 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, PUB members ask the bureaus to clearly present in their budget requests those items that are regulatorily required regulatory requirements at this time, those that can be implemented over time, and those that are related to or complement regulatory requirements but would not jeopardize compliance.

H)

Topic #9: Communications and Transparency

I)OO) _____ 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.

J)PP) _____ 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 assessable budget information is one way to strengthen and maintain the public trust and PUB members encourage the bureaus to continue that work.

~~(K)QQ)~~ 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

~~DD)RR)~~ 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 PUB members will recommendations after reviewing~~ the analysis and recommendations of the City Budget Office, consider further input from the bureaus, and weigh the requests through the lenses of its stated values, cost, impact on service delivery, connection to strategic plan, and expected outcomes. ~~and We look forward to providing you further input as the budget process continues through the spring.~~