



# Oregon Citizens' Utility Board

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March 29, 2019

To: Portland City Council  
Community Budget Advisory Committee  
cc: Mike Jordan and Jonas Biery, Bureau of Environmental Services (BES)  
Public Utility Board (PUB)  
Shannon Fairchild, City Budget Office (CBO)  
From: Janice Thompson, Oregon Citizens' Utility Board (CUB)  
Re: CUB input on development of mayoral budget for BES

## INTRODUCTION

This memo provides CUB's input to the Mayor regarding the BES portion of his budget. However, CUB directs this memo to all members of the City Council and the Community Budget Advisory Committee to inform discussion of the BES budget during the Council work session. CUB will also send this memo to the BES leadership team, PUB, and CBO.

CUB calls this our "phase 2" memo since it was preceded by a "phase 1" memo targeted to Commissioner-in-charge Nick Fish and the BES leadership team with CUB's input on their development of that bureau's requested FY 2018-19 budget. An overall comment is that BES plans to get a lot of work done at a fairly low average rate increase which is at or close to the rate of inflation on a long-term basis. As in the past, CUB's "phase 2" memo cross references points of agreement or disagreement with the CBO report.

## RATE STABILIZATION FUND (RSF)

CUB reviewed use of rate stabilization funds by both BES and PWB in late 2014/early 2015 at the request of Commissioner Fish due to a fact impaired media article on this topic. The following may be a helpful excerpt from our February 2015 memo:

... rate stabilization fund dollars are "used to 'smooth out' rate increases over time when there are fluctuations in revenues and expenses."<sup>1</sup> After "designated reserves for a rate stabilization fund" are accumulated it "can be drawn on to mitigate large impacts of prospective revenue requirements. The rate stabilization fund is used to meet a portion of the utility's revenue requirements" and once established should be maintained.<sup>2</sup> In other words, rate stabilization funds are built up and then drawn down, but not eliminated, in a planned and strategic manner.

An additional background point is that effective use of their rate stabilization funds is a contributing factor to the high bond ratings of both PWB and BES.

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<sup>1</sup> Right-Sizing Reserve Funds, February, 2012, <http://efc.web.unc.edu/2013/02/12/right-sizing-reserve-funds/>

<sup>2</sup> *Principles of Water Rates, Fees, and Charges*, American Water Works Association manual, Sixth Edition

It is against this backdrop that CUB urges caution about CBO's recommendation that BES "consider lowering planned rate increases, at least in the short term, and look for ways to use the RSF to reduce future rate increases." An initial point is that it seems to CUB that BES is already using the RSF to reduce future rate increases. Indeed, the reason that BES is in a position to project average annual rate increases of 3 percent for many years to come is because of longer term thinking about its RSF. The CBO report accurately points out that BES forecasts having more than 270-day cash on hand over the next decade, but this is what enables continued rate increase mitigation in the following five to ten years.

CUB sees value in the longer term thinking that BES is applying to management of its RSF. Obviously, monitoring and adjustments may well be needed. However, we are troubled by the possibility of unduly short term thinking regarding possible adjustments.

Short-term, and especially one-time, RSF adjustments are tempting. CUB can see the appeal of trying to moderate the projected combined PWB and BES average rate increase in FY 2018-19 that is linked to a PWB rate increase uptick of 8.9 percent before it levels off to 7.2 percent. However, CUB finds use of the BES RSF to address combined rate increase concerns linked to PWB rate increase issues quite problematic. One-time, or even short-term, RSF adjustments are also troubling because they highlight the potential for inappropriate nudging of RSF policies by elected leaders.

In general, CUB recommends considerable caution and consultation with the City's debt manager before the City Council imposes changes on BES strategies regarding its use of RSF dollars.

## **CAPITAL IMPROVEMENT PLANNING (CIP)**

The CIP-PREP project, and its positive impact on the efficiency and effectiveness of CIP planning and budgeting at BES, continues to impress CUB. The extent to which improved CIP planning will begin to dovetail with the recently adopted BES Strategic Plan presented last week to City Council is also impressive.

CIP-PREP implementation and ongoing use of the strategic plan in the budgeting process seem likely to address CBO concerns about BES underspending of its capital budget. Some level of underspending, however, seems inevitable due to unanticipated events and other factors that can delay capital improvement project completion. Narrowing the gap between CIP budgets and actual spending has merit, however, and seems likely to occur with CIP-PREP implementation. To be clear, however, the narrowing of this gap and the full dovetailing of the new BES strategic plan with CIP planning and other BES budgeting will be a multi-year process.

CIP projects undergo considerable vetting, and CUB's review of new project requests indicates that BES scoring this fall was appropriately rigorous. CUB concurs with BES decisions to not include several proposed projects in this year's CIP plan. Implicitly, this means that CUB finds the CIP proposals in the current BES request are appropriate. We will continue careful monitoring, however, with a particular emphasis on large projects with low confidence ratings due to their being recent entrants into the CIP plan.

An FYI that might be helpful to the Council and Community Budget Advisors is that many costs for projects at Tryon Creek Waste Water Treatment Plant are split with Lake Oswego. Therefore, CUB recommends that BES clarify in budget documents when Tryon Creek dollar amounts represent

total costs and, when applicable, include the percentage of total costs that will be paid for by Lake Oswego.

## **BUDGET DECISION PACKAGES**

CUB concurs with CBO's recommendations except for their rejection of the BES share of Low Income Program Expansion costs. CUB's discussion of that program expansion, however, is included in our "phase 2" memo regarding the Portland Water Bureau.

CUB sees CBO's logic in their relatively few rejections of BES position requests. However, we anticipate that in many cases adding that staff capacity will eventually be needed which means we won't be surprised to see BES revisit some of these rejections in future budget cycles. Of particular importance to CUB is careful review of future funding for integrated planning, particularly related to Storm Water System Planning group.