

Portland Utility Board

November 6, 2018 4pm -6:30pm
World Trade Center Build One Training Room
SW 2nd and Salmon Streets on the Bridge level (2nd Floor)
Meeting #56

Attendees:

PUB Members: Ana Brophy, ex officio
Allan Warman
Colleen Johnson
Dan Peterson
Heidi Bullock
Micah Meskel
Robert Martineau
Dory Robinson
Van Le, ex officio

Absent:

* Lee Moore
* Vera Zaharova, ex-officio
* Scott Robinson
* Mike Weedall
* Ted Labbe

*Notice of absence provided prior to meeting

Staff: Commissioner Amanda Fritz
Michael Jordan, (Director, Bureau of Environmental Services)
Mike Stuhr (Director, Portland Water Bureau)
Dawn Uchiyama (Deputy Director, Bureau of Environmental Services)
Jonas Biery (Business Services Manager, Bureau of Environmental Services)
Cecelia Huynh (Director of Finance and Support Services, Portland Water Bureau)
Jeff Winner (Capital Improvement Program Planning Supervisor, Portland Water Bureau)
Cristina Nieves (Representative, Commissioner Fritz's Office)
Melissa Merrell (Principal Analyst, City Budget Office)
Shannon Fairchild (Senior Financial Analyst, City Budget Office)
Yung Ouyang (Senior Financial Analyst, City Budget Office)
Alexandra Martin (Executive Assistant, City Budget Office)

Public: Carol Cushman, League of Women Voters
Janice Thompson, Citizens' Utility Board

I. Call to Order

Allan called the meeting to order. He reminded everyone that the meeting was of community volunteers tasked to advise City Council on items related to the Water Bureau and the Bureau of Environmental Services.

He gave an overview of the [agenda](#) which begins the review and discussion of the FY 2019-2020 budgets for BES and PWB with budget overviews and discussion of the move to program-centered budgeting.

Allan noted the sign-up sheet for public comment. He noted comments were limited to three minutes.

II. Prior Meeting Minutes

Melissa circulated the draft minutes from the [October 18](#) and [October 23](#) meetings.

Allan asked if there were changes or correction to the October 18 minutes. Seeing none, the October 18 minutes were accepted.

Allan asked if there were changes or correction to the October 23 minutes. Seeing none, the October 23 minutes were accepted.

III. Public Comment

There was no public comment.

IV. Disclosure of Communications

Allan and Colleen met with BES bureau leadership, including Mike J, Dawn, and Jonas, just before the meeting to talk agenda planning for the budget process.

There were no other disclosures.

V. Commissioner Fritz

Commissioner Fritz said she is the second woman in charge of Water, the first was Dorothy McCullough Lee. Commissioner Fritz said her title has been commissioner in charge of public utilities though she has never been truly in charge of a utility. She said she appreciates the work of Water and BES. She is also thankful for PUB's expertise and community advice on work she finds compelling. Sewer and water pipes are not considered interesting but since PUB members attend the meetings they know they are. There are intricate challenges in the bureaus. Not only does water need to turn on and sewage go away, larger issues must be managed. There are questions of who provides services, proving there are equitable practices, what happens if services are interrupted, how do the bureaus provide good jobs, training people to start at an entry level and work their way up. The Commissioner said she has been thinking about these intricacies over the past 10 years. She has been concerned with how the City spends rate and tax payer dollars while delivering services. PUB is an important body and cares about these issues too.

She said she is grateful to Mike Stuhr and Gabe Solmer for giving tours of their huge bureau. She is thankful for the solid leadership she can count on.

Allan asked if she has been to Bull Run.

Commissioner Fritz said she went to Bull Run last week. She also went in 1995 with an education trip. The capstone was to have a Bull Run tour. When she went she thought they should only go to Bull Run once and it should not be a tourist destination. She made an exception when she became the commissioner in charge.

VI. **PWB Quarterly Reports**

Allan said just before the October 18 meeting, they received three quarterly updates from the Water Bureau for [Filtration](#), [Washington Park](#), and [Mt. Tabor](#).

He asked if members had any questions or comments related to the reports.

Allan noted they do not need to accept the reports and if there were no items for discussion they would move on.

VII. **City Budget Process Update and Program Overview** Melissa Merrell, PUB, Allan said Melissa will give a review of the “Getting Started with Program Offers” document and the two graphics on the bureau budgets.

Melissa noted she will give a brief update on the budget process changes. They are all learning more information every week. In the packets, she has included the [program offers document](#). The information was provided to bureaus to make a switch from previous formats to a program-centered discussion. She referenced page three which explains program offers’ value in translating and communicating to the public.

Melissa explained that she made two graphics for each bureau to visualize changes.

[BES Program Organizational Graphic](#)
[PWB Program Organizational Graphic](#)

She noted these display the Fiscal 2018-19 budget breakdown for both bureaus. The top line shows how the budget was structured and presented last year. The four-digit level is how this is coded. All the budget items have at least ten digits associated with them.

Melissa said for 4, 6, and 10 digits there are different levels of detail.

The view is at the four-digit level currently. Bureaus have coded information at 6, 8, and 10 digits but since it wasn’t used for display, anything below the 4-digit level is murky. In the past, they haven’t paid attention to that level, but they do exist. Since bureaus are just starting to pay close attention to the more granular level, PUB should expect refinements over the next few years.

Between Water and BES there are distinct differences.

Water has some programs without lower levels of information. This includes regulatory compliance.

[BES Program Treemap Graphic](#)

[PWB Program Treemap Graphic](#)

Melissa did a proportion of dollars mapping for both bureaus. This way PUB members can see each program size relative to other programs.

The guidance from Budget Office is that, unless something is egregiously wrong, bureaus should continue with their current coding buckets this year and make changes next year. They will do longer term planning next year. They know there will be changes and the process will get better next year. This is where the conversation will start. Allan and Colleen have been talking with BES and Water about the process changes.

Both bureaus will talk about the budget view, capital projects are next, and then the roll out of program descriptions. Narrative descriptions of budgets are next. Program offers will be submitted at the end of January. The next three months of PUB conversations will mainly be about budget.

Melissa asked if there were any questions.

Allan suggested PUB members read the documents several times. He said this is a foundational opportunity to understand what's coming in terms of a very large pipeline of information. These documents begin the conversation and will support the content from Cecilia and Jonas.

Colleen thanked Melissa.

Carol Cushman of the League of Women Voters asked if this is visually representing percent. She said, for example, the document says BES spends this much money on this one thing.

Melissa said yes.

VIII. **BES Big Picture for the Bureau's Budget**, Jonas Biery, Business Services Manager, Bureau of Environmental Services

Jonas referenced the [handout](#). He said they will have an example of program narratives and then the director will present.

He said the base budget is the starting point. Anything council directs is prioritized. Some priorities are financial assistance outreach, the strategic business plan, and rate increases no greater than last year.

Their focus areas are not different than the past and include: conditional assessment work, CIP preparation, infrastructure maintenance, workforce development, equity components, organizational transition, regulatory compliance, and Portland Harbor is a known future need.

Jonas referenced the handout. He said PUB has seen the handout before; it has been updated with new information. He said this is the overview as of June 30, 2018.

He said on the first page at the top there is a snap shot of the CIP and operating budget increases. They have increased incrementally year over year at a similar rate to the forecast. The long end is more difficult to predict, and they are working on the forecast. He noted where they ended at last fiscal year.

He also talked about updates currently underway. The bureau will incorporate the changes made in the BMP, make some adjustments to move towards implementation of the strategic plan, update the escalation factors, and refine the FY 2020-2024 operating plan.

He said the inflation factors include assumptions about PERS costs, COLA adjustments and Internal Materials and Services and External Materials and Services. Those will be update in next year's forecast as part of the budget request.

The capital program is on the same trajectory as last year. In the document, they are looking at projects on the macro level and do not expect major changes.

The staffing and budget history section offers a reminder of where they have been in the last ten years and where they are going. BES had staff reductions due to city-wide reductions. This squeezed some services. They have an intentional attempt to replenish what they lost in the past and have seen increases over the past four years. Some growth over the past decade is conversion of contractors to FTEs. Taking those employees out, they have only grown 1% each year, which is modest for the work produced.

Colleen asked what drove the decrease in the operating budget in FY 2013-14. Jonas asked Cecelia to answer. Cecelia said budget cuts. Jonas agreed, noting the implementation of budget cuts and staffing cuts. Someone added it was because of the recession. Colleen asked why it was related to the recession, the recession had ended. Commissioner Fritz said it was related to pressures in the General Fund. That year, there was a library measure which was \$9 million. That was also when the Joint Office on Homeless was funded. That was \$25 million from the general fund. Under Mayor Hales, utilities were to share in the pain. Cuts were made across the board even though the funding sources were different.

Allan asked if the cuts were primarily staffing. Mike J. said there was double pressure. There was a pressure to manage rates and debt. They were increasing debt as part of the Combined Sewer work while trying to keep overall rates down. The unilateral decision put double pressure on the bureau.

Jonas noted the recession's lagged effect on government budgets. Some of the debt related to the Combined Sewer program lagged. Due to volatility it would have caused to rates, the bureau readjusted their operating plan. Now they are coming back to right level. They are more in a rhythm now without council directing large budget cuts due to the recession. There has been a realignment of capital.

The second page shows rates and revenues and where they have been for the past five fiscal years. In the early part of the decade BES alone had 6% and 7% rates of increase. There has been

a consistent downward trend. They were brought down to a 3% lower target for fiscal 2018. The forecasted rates generally are about 3%. Last year, there was direction to use some cash earlier. So for FY 2018-19, the adopted rate of increase was 2.35% instead of 3.0%. That results in a 3.1% in the outer years. Jonas said he wanted to flag there are nuances and going forward the bureau plans to manage to a flat 3% rate of increase in rates.

Based on projected revenue and customer growth, the 3% rate is likely. The projected rate is more stable and so is fund balance. As the previous projections grow for a few years they can use the rate stabilization fund to manage rates over the long term and PUB members can see that the Fund will start to decrease as shown in the table.

He noted the line in the table showing cash on hand. For credit rating and operations purposes, they keep 270 days at minimum. To meet and maintain 3-3.1% in the current year they will use cash over the long term. Having cash is good from a credit rating perspective though it is awkward to sit on a pile of cash. This is not a different strategy; it will continue and has been the situation for a couple of years.

He referenced page two and noted the bonds sales, department funded capital plans, and long-term bonds. This spreads the cost over a longer period of years. There are different rate impacts. 85% leverage is a little bit high. They are shifting to 50-50 cash and debt funded.

He noted the bottom left table is showing by 2024 cash goes up; they will be using more cash funding. They can do that because, as shown in the table in the bottom right, there is a big annual payment that pays off the remaining debt that had financed the Combined Sewer work. When that debt is retired, they will have flexibility to make that change.

Jonas said if you take that yellow line, project the annual payment and it carry forward and it will get flat. It will trickle down and move to 50-50.

The third page graphic shows the positive and negative rated drivers. Some things will be implemented as they build the forecast.

Some drivers are the strong economy and strong System Development Charges (SDCs) in the city. They are more likely to see a recession than not. They plan conservatively for the SDCs perspective and know not to over estimate. If there is a reduction in SDCs or a reduction in growth they don't want to have to raise rates to make up for the optimistic assumption. There are more people moving here. That is a double-edged sword. There is a different level of service expectation due to growth and development.

Jonas also noted the Renewable Compressed Natural Gas as a strength. "Poop to power," as the commissioner says. As that program is successful and results in revenue, less can be collected from rates.

Some risks include regulatory factors, pensions, health care cost increases. Health care is increasing at a higher rate than almost any other factor.

There are risks associated with the operating budget and CIP related risks.

Biosolids removal is one issue they spoke about recently. That will be a big piece of the budget. They will look at it on an ongoing basis and consider what they had in prior years. They expect to update and navigate the forecast using more accurate and conservative information.

Jonas noted page 4 has the schedule and process.

Jonas referenced pages 5 and 6. They shows the breakdown of program areas the bureau anticipates using.

There is uniqueness if they try to compare the adopted budget. The adopted budget includes debt service and transfers. This shows up in Finance. That is a \$984 million functional area. They tried to carve out items to see what is tangible from a program perspective. He referenced the back which has the same information on a more granular level. It is spread out over 27 program areas. There are functional areas as defined in the budget software now. Some resemble, and some do not resemble program offers.

They expect these areas in the 2019-20 requested budget. He noted the amounts in 2018-19. In December they will have updated 2019-20 amounts and know and where they stand for this budget cycle.

Jonas said he would talk about functional areas and program offers.

Ken passed out a handout on the bureaus development timeline for making the switch to program focus.

Jonas said as they heard from Water and Jessica Kinard at last meeting, bureaus are currently trying to assemble draft program offers. There is a rumor there may not be a template received. The way they are approaching is they have information appropriate and adequate to this cycle. They are hiring temporary staff in a couple of weeks to help prepare documents and narrative to get the work done. Last week Jonas prepared a timeline and went through CBO guidance document and created their own bureau document to guide those who will populate program narratives. The hope is the temporary person can take the body of questions and navigate with program owners to develop the documents.

Jonas referenced the timeline handout and said it is the first step to inventory and understand what they have. They know the functional areas. There are items with a mismatch of things within.

For example, bureau support. This has 20 different function areas, and some might be in another functional area now. They must inventory and understand, looking at the functions and what's in the areas and figure out how to talk about the pieces in a meaningful way.

They are making good progress and developing the plan.

There is a January deadline; at the end of January the requested budget is submitted. They will already be working on metrics developed out of the strategic plan. The transition team is managing the reorganization considerations. They will be working on that in spring and helping in summer, in May and June, and will have outputs of the transition team's work.

They are considering how to realign to have a more meaningful package of outputs.

For example, with wast water, they have collection, maintenance, treatment. It might make more sense to have pump stations, Columbia Boulevard, and Tryon Creek, for example. They want the outputs to make more sense and be right-sized to talk about meaningfully to the public. They will have those discussions over summer.

The grey box with technical realignment is to be determined. They must do that by the end of summer. They will have realigned and bring the information to PUB for FY2020-21 budget development. That will be a heavy lift. Jonas is optimistic because they are already making other changes, including the strategic plan, reorganization, it works well to have an implementation timeline when they come out of these changes 12 months from now.

Last are the next steps. They will continue to work on the narrative content. By December they will have something to share with PUB. They saw what Water had available for this meeting with program narratives.

They are continuing budget development. They had all the data and bureau leadership met all day for seven hours. That was the first time bureau leadership met all day to work on budget. They will be having two more all day meetings. There was robust information sharing to find what will go forward in requests. That is a shift and is part of the strategic plan, which suggests more collaborative work.

Mike J. said this is setting the stage for where they are and where they are going. Some is new from last budget year, some is a bit redundant. They are on a trajectory for a couple of years. The key is looking at the capital budget and investment in capital maintenance and where they need to go to make utilities sustainable in the long term. They need to make updates to the system.

Mike noted the financial situation is healthy to utilize cash and increase investments over time to get to a sustainable level of investment.

Mike said two years ago they said they reserve the right to get smarter. They will learn things and change strategies and directions. The goal is trying to get to a level of investment to sustain the large infrastructure the city owns.

The capital budget is on track and somewhere in the \$140-150 million range. They got \$85 million out the door last year. When looking at next year, they anticipate the number of projects ready for construction will go down. Some projects are in the design phase.

They must take a breath and look at how fundamentally they are delivering capital projects. Not only look at dollars in the budget and FTEs. They need to look at strategies and technology to get projects out the door.

They have different kind of work and will talk to PUB about what the level in the capital budget should be. They need to look at the components and see if they can deliver them in a different way. That's a transitional start, not the long term.

The goal is to get to a level of investment every year to make a sustainable system. They do not want big pushes with the level then coming down. They plan to use the transitional strategy for now.

Mike J. wanted to specifically mention Tryon Creek Wastewater Plant, which PUB learned about at a recent meeting. Since then there have been conversations with DEQ on permitting for a new plant. They have gotten better information regarding what Lake Oswego will have to do to make rational decisions about going forward with a different plan. There is an alternative route to spend \$100 million over the next 7 years at Tryon for multiple projects which have been in planning for some time. They need to develop a parallel route in the next 4-5 years, depending on how DEQ permitting transpires. The goal is to get on track to maintain the plant over the next 3-5 years while Lake Oswego goes through their decision process. There are significant electrical problems to upgrade and a challenge with disinfection. There is a tension between what it takes to keep the plant running for the short term and what they would do if they knew they were operating it on a longer-term basis. They will likely enter a new IGA with Lake Oswego for the transition and the longer term if Lake Oswego is taking over the treatment work. If they become and client or the other way around, they will need to make decisions about both tracks and what they mean.

Currently in the budget, the Tryon costs are capitalized. If they move to maintenance mode, they will not be able to capitalize all expenses and that has operating budget impacts. As they think about this going forward, they will have more conversation on the details.

To frame it further, given the dynamics of the budget structure and the multiple level changes, this is the time to look at the year hit a pause button. They need to retrench and find firm ground. It may feel chaotic in the budget. They know service delivery will not look significantly different last year. While it may feel chaotic, PUB should know the general operations of the bureau are generally the same.

IX. PWB Big Picture for the Bureau's Budget, Cecelia Huynh, Director of Finance and Support Services, Portland Water Bureau

Cecelia said she is not going to repeat what Jonas said and noted a lot applies to Water as well.

She noted the handouts and said this is a starting point. They will update the information over the next few months.

She noted the budget [handout](#). It is similar to BES's 5-year outlook.

Looking further out, the filtration project will have a lot of impacts going forward.

The top line in green is the operating budget and brown is capital. One thing they are doing is updating the inflation factors for Water. Cecelia noted two years where the escalation factors jump. 2022 is when they will complete corrosion control. Operating budget escalation factors there increase because of O and M costs for facilities that will then be up and running. Those two facilities effects on the operating budget will only escalate.

The capital program brown bar is lumpy. The projects are ramping up and construction is expensive. Some items they know are changing are listed and PUB heard from Jeff on those. They include: changes to the Portland Building timeline, Willamette River Pipe Crossing, and Washington Park. More details are coming at the next meeting when Jeff will discuss Capital Projects and review the project's timing and schedule.

Other updates to operating budget include the class compensation increases.

The Fall BMP increased for interagency agreement for a focused procurement team which will help Water's infrastructure team get projects out the door. There will be more changes as they get through the budget process.

Staffing in 2009 included 669 positions. That does not include part time. 2012 saw a significant drop in staffing. In 2015, they dropped to 556 with about 100 fewer positions than 2009 due to budget cuts.

Colleen asked for clarification. Cecelia said the reductions were mainly reductions of vacant positions to minimize the impact to services. That only brought them half way there. 600 positions are currently supported, included those new positions from FY 2018-19 that PUB supported. In addition, these numbers include 7 limited term positions and 7 Cayenta staff transferred from Revenue bureau to Water.

Micha said he would like to see staffing graphs with increases and decreases in service numbers. He would like to see how many people the bureau is serving and if the growth in population is similar to a growth in staff. Cecelia said they can probably project the number of customers, which is on the rise. A lot of they do is maintain the service: maintain pipes and hydrants. That doesn't change. There were also cuts to security staff. There is not a direct correlation in rise in customers and staff changes and service level. By making cuts they lost some service level.

Allan asked do the numbers in the annual include vacancies. Cecelia said yes it includes authorized positions. There are about 50 authorized positions vacant.

Cecelia said as much possible they try to fill with internal promotions and new hires.

Mike S. said that's tricky. They are not competitive at hiring.

Cecelia said the back of the handout shows rates for the last 4 to 5 years have increased less than forecasted. The rate increase is slower than forecasted and they have conservative rates assumptions. Escalation and other assumptions will be updated. In the future, he rate is higher than forecasted because of the filtration project. For example, the forecast rate for FY 2018 was 6.7% but the adopted rate was 8.7%. For the next five years, the forcasted rate of increase is 7.4%,which assumers 2.2% each year to save for filtration.

They are not assuming increases in demand. Even with new construction and smaller lot sizes, the demand in retail is the same. Revenue will go up based on whatever they are increasing rates to.

\$40 million is in the rate stabilization account which is higher than last year. This is more favorable than planned. They moved \$8 million into the account. They will start building the account now and draw on it until 2028 when filtration construction is high. That account it how they can keep rates smooth so there is no spike in rate increases.

Cecelia moved on to bonds sales. They issue revenue bonds every year, this is related to funding capital programs. They currently have large projects. Washington Park, Willamette River Pipe Crossing, and the Portland Building. For a few years after those three projects, filtration will ramp up. They will issue bonds for the next several years. The debt service has a 6% bond rate assumption but most times the actual rate is lower. The most recent bond had an interest rate of 3.45%. The outlook for interest rates is unknown. It might get closer to 6%; it will probably get to 5%. They are working with the city debt group. They don't want to underestimate the cost of borrowing.

Capital funding sources are proportional amounts. It appears capital and debt are in the same proportion as cash revenue funding capital programs, but more cash is funding more each year. In FY2029, PWB forecast the proportion of debt financing for capital will go down.

To see what impacts rates there are more negatives and more uncertainty than positive. They will update the fund balance with prior year actuals. It's a benefit to rates to have more fund balance than planned.

The economy is doing well, there is more SDC revenue. With services they must be careful not to overestimate enterprises funded through rates and fees; there is a plan of what they are expected to spend. They are very conservative and try not to overestimate the benefit to rates.

They expect the Mt. Tabor Preservation Project funding to continue from the General Fund. If they must pay for through rates that would affect the numbers. So would the Decorative Fountains. If they pay Parks to maintain the fountains, that would affect rates going forward.

The retail demand for water has flattened, within 2% to 3% of forecast. They like to see it above the forecast and not see it go lower. They didn't expect to see it dropping like it did 10 years ago.

Cecelia said she would share the retail demand with Melissa. With the drop in 2010 they were chasing the demand number for several years.

Mike S. added there is a cultural trend to reduce water consumption with changes in plumbing code, energy efficient usage in buildings, and other changes that drive down demand. It will flatten.

Cecelia noted the resolution on the Community Opportunity Enhancement Program. She asked if there were any questions on what the program is. Colleen said she would like an explanation. Mike said he would provide the explanation when Cecelia is done. Cecelia said new impacts are not included in the forecast. They are still working through how it will work but if these programs can't be capitalized, they will be in the operating budget.

Cecelia said COLA adjustments will be made in February. Interest earnings climb slowly. Fund balance amounts are affected by interest earning dollars. Revenue is still a factor. Another big factor is that wholesale customers don't have to make elections until December. Allan asked how big that factor was. Cecelia said 10% are wholesale customers. Every dollar less from wholesale increases retail rates.

Interagency agreements change the general fund overhead. PWB knows the direction to the General Fund bureaus is a 1% reduction but they don't yet know what impact that will have on the utilities.

On the strategic business plan, they are deep into the work. The risk mitigation plan is developing. There may be more costs in the short term. Until they get into that they don't have info on the needs. For bill payments they are in the process of receiving bids. They won't know if it will cost less than the current assumptions.

Mike spoke about the Community Opportunity Enhancement Program which began in part about 10 years ago. At that time, the bureau was directed to do a community benefit agreement. The program began as an agreement in construction projects. Kelly Butte and the Interstate project were they first pilots. There were 2-3 reports to council on the subject. There are a bunch of different things to do. There was the community benefit agreement for Washington Park. The framework for the community benefit plan is for projects over \$25 million. They are trying to do something more. It is meant to assist in development of the workforce in the city construction workforce. It supports minorities and growth in the construction industry. After this process it is a requirement of all city bureaus that they contribute 1% of construction dollars to fund training and professional development for minorities, women, and small business. It is a very good idea. They are in the process of setting it up now. Not all projects are included. It is only construction. The administration of the program will come out of the 1%. City staff oversee and administer the funds. That was one challenge in the initial community benefit program. In this BMP, OMF is requesting a position to administer the program. They have a person in mind to administer it. That is what the 1% is about. It applies to every bureau that does construction.

Allan asked how large the program was. Mike said for Water there is \$100 million. 1% of that. Allan said in total \$5-10 million per year. Mike said they haven't seen the total number; they only know Water and BES's budget.

Cecelia noted the pie graph showing program areas and said it is like BES's. The slices are what they have been presenting in the budget and the four-digit level. The programs are supply, treatment, transmission and terminal storage, distribution, regulatory compliance, Customer Service, and Support. That's the level they currently are at. Going forward they will drill down one level within multiple programs.

They will start with supply which is Bull Run and groundwater. Cecelia crosswalked the pie chart on page 4, the table on page 5, and the [program narrative document](#).

\$6.6 million supports Bull Run except dam inspections and includes road maintenance.

All program includes capital components and operating costs. In one year you may see the dollars jump if there are significant capital programs in the works. The table presents the

information in columns. There are not too many changes in operating increases in escalation factors. With CIP filtration alone, they see a lumpy program.

Also in Supply is the Columbia Southshore Well Field which provide a secondary source of drinking water to supplement Bull Run during the summer or when there are issues like turbidity in Bull Run. This program budget is \$2.6 million. \$2.6 million is a small amount and they do not have current capital projects in the well field.

Treatment includes disinfection and corrosion control and will include filtration. The total program costs are \$10.2 million and include \$2.8 million in operating costs for chemicals, staffing, and other treatment operating costs.

The category of transmission and terminal storage includes conduits and transmission needs and includes about \$1 million in operating costs. Terminal reservoirs include Kelly Butte and Powell Butte and large capital costs for Washington Park. \$800,000 in operating costs are cleaning and maintaining the terminal reservoirs.

The next big bucket is distribution and are the core assets in the city. Also included is the fountain, vents, and bubblers. Other maintenance is repairing hydrants and replacing residential meters. There is \$7 million for pumps and tanks in operating. This is for electricity and power for the areas in the city where they need to pump the water. Most of the system is gravity-fed so the operating costs are low. Service lines are the lines from the main to the meter at the property line. They must maintain if there is a leak. \$6 million in capital costs are related to development. This is for putting in new valves and There are about 43,000 valves in the system. They must make sure they work and can be turned off if needed.

Regulatory compliance includes everything that has to do with compliance at the federal and state level. It includes all lab work, sampling, and reporting on lead and other requirements. The capital program has \$2 million.

Customer service is everything not related to getting water to people.

In conservation and sustainability, there are areas such as provided conservation tips to customers. It also includes working with industrial customers how to best use water efficiently. 200 million customers are receiving service. Kathy Koch manages this area and everything about the payment process is included.

Grounds and Parks includes maintaining properties so they can access and maintain hydro parks to make the areas pleasant. There is a crew to maintain the properties.

Security and emergency management includes about a dozen staff as well as a 2-person emergency management team helps preparing for an earthquake event.

Again, customer service is overall about what they are providing to customers that is not about delivering the water.

The last area includes bureau support, public information, records management, GIS, management of all data, water apprentice programs. Planning is financial, capital, asset management, and strategic management. It represents \$4 million in the operating budget.

Allan said of \$240 million, \$100 million is operating. He Who has been doing program budget asked with the change to program, how much of this will look familiar next year. Cecelia said PWB has been doing program budgeting for 15 years. Some buckets have odd things and are not totally logically clean. Some pieces are lumped in programs. Cecelia said she expects programs will be stable with some cleanup.

Cecelia referenced pages 3 and 4. The goal is to take what was written and expand meet CBO's guidance. Some programs don't provide service but have a purpose. It may not fit in what was envisioned. They don't expect to see changes any time soon and welcome feedback from PUB.

They will take description and develop section 1 and 2 of the program offer structure for the December meeting. There will be a description of programs with the purpose of the program. They don't expect changes on operating and maintenance. They try to describe how the capital program is changing to show why there is fluctuation. They don't expect the operating side to change much.

Mike S. said he was lucky they have been doing program budgeting 15 years; it is a work in progress and they will work their way through.

Mike said the view for the next 10 years is they have been bound by federal government demands and regulations. Filtration, corrosion are regulatory mandates, and seismic resiliency is a priority. They need to work on equity positions. They are hiring an equity manger in early spring or late winter

Mike said they will get into this more next time when Jeff talks about capital projects. They like to keep the execution rate high. How much they have spent is divided out. He said an execution rate of 75% is pretty good in this City. They have done very well. Issues interrupt the course of capital programs, such as regulation, the light rail project, etc. PWB has had an execution rate of over 90%. This year it is 56% because of two projects: Washington Park has delays and so does the Willamette River Crossing.

Washington Park first had trouble with the architect engineer. Mike said he is not worried about the design. The company had a major buyout and reorganization resulted in changes in staff working on the project. They spent spring cleaning up the situation. Once they have issued a notice to proceed it is expensive to stop. They are dealing with the contractor; they have been reasonably cooperative. They are 9 months behind in a 7-year project. They are not worried about the project overall but there will be a cost impact. They are working with lawyers and a mediator. If all goes well they will settle it in January. They are done with the foundation and are placing concrete. The whole project is within contingency and will probably be beneath the budget number. Allan asked for the budget number. Cecelia said \$205 million. It will be within that amount.

On the Willamette River Pipe Crossing, that is the most important project for disaster preparedness. The reason for the delay is they are not bringing the project to council until the

price and project is where it needs to be. It is an Important project that when it goes to execution it will pick back up.

Commissioner Fritz said the long-range forecast includes filtration. The council decided on filtration but has not authorized three program componenets yet – sice, location, medium. They are holding a community meeting. They need to be clear with the public. If someone would like to give feedback they are meeting at IRCO. There will be an interesting presentation on lead treatment options. They can tell people about financial assistance. Lead testing kits will be available.

Allan said he will be at the meeting.

X. Upcoming Board Meeting Agendas

November 15, 2018

Location: PSU

11am Board Meeting

Agenda: PWB capital plans, Willamette River Crossing, BES capital changes

Colleen said Scott had raised the issue of underspending by both bureaus and rates over time.

Robert noted the combined rate in the forecast looks to be about 4.5%.

Melissa said for January scheduling the best time is January 8 at 11.

The meeting adjourned at 5:48.