

The Portland Utility Board (PUB) serves as a citizen-based advisory board for the Bureau of Environmental Services (BES) and the Portland Water Bureau (PWB). We submit this initial budget letter in compliance with City practice for budget advisory committees, and in response to our specific duties 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)”

The PUB has held numerous board meetings and subcommittee meetings over the last few months to review the FY 2019-20 proposed operating budgets, major additions and adjustments to the five-year capital improvement plans, and program offers for both bureaus. We look forward to providing additional feedback to City Council upon receipt of the final budget program offers, the City Budget Office (CBO) analysis, and our own internal analysis. We anticipate participating in the budget work sessions in March, the utility rate hearing in May, as well as discussing budget issues with the Mayor if requested, as the budget develops.

The PUB receives significant support from the bureaus’ directors and staff, the ex-officio members, Commissioners Fish and Fritz and their staff, as well as the City Budget Office and our analyst. We are grateful for their collective efforts to help us understand and navigate the complexities of these utilities.

The PUB 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
- 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. In providing non-General Fund budget guidance, the Mayor stated in his memo of November 21, 2018:

“To ensure the long-term fiscal health of the City, I expect bureaus to provide robust financial plans as required by City financial policy. These plans should include a comprehensive overview of risks and liabilities and should guide and inform bureau decision-making in developing program offer budgets. Bureaus heavily reliant on cyclical resources should be wary of adding significant ongoing requirements – including new positions – at our current point in the economic cycle.

PROGRAM OFFERS

For FY 2019-20, City Bureaus were directed to:

“develop their budgets in a “program offer” format. Program offers combine program descriptions, budget, and performance data for a set of services into a brief and concise document. The goal of program offer budgeting is to succinctly describe how bureau resources are allocated to deliver services back to the community. (Getting Started with Program Offers)”

The move from “Decision Packages” to “Program Offers” has been a difficult, complex, and time-consuming effort on the part of the staff of BES and PWB. The PUB would like to extend our thanks for their hard work and dedication in this process. As this new budgeting process has developed over the last few months, bureau staff have met with the co-chairs on a regular basis to ensure that PUB members received the material in as timely a manner as possible.

The PUB would like to commend the Mayor for directing this change in the budget process. While everyone is still grappling with the changes that program offer budgeting entails, we believe that this move will enhance transparency and accountability in the budget.

The establishment of performance measures as part of the program offer is intended to provide quantifiable data to determine the success and effectiveness of a particular program and to ensure accountability. Both BES and PWB are in the process of establishing these performance measures and will likely be revising them over time. The PUB would like to recommend that the bureaus provide context for those metrics such that public can easily understand why they have been chosen and how they might provide evidence of program success.

ANNUAL RATES OF INCREASE

The PUB appreciates the consolidated budget guidance letter for FY 2019-20 from Commissioners Fish and Fritz. We look forward to working together with both Commissioners and their staff. Their letter emphasizes a number of our own values as listed above including affordability, value to customers, and assistance to low-income residents among others.

The Commissioners directed that the bureaus' budgets reflect a "combined rate increase of no greater than 4.53%." BES is currently forecasting a rate increase of 3% for FY2019-20 through FY2021-22 with an uptick to 3.10% in FY2023-24. However, recently BES has told the PUB that they are reasonably confident that they may be able to pull the 3.10% back down to 3% given recent trends in revenue. PWB is forecasting a rate increase of 7.4% for FY2019-20 through FY2028-29, which includes 2.2% for filtration. These forecasted rate increases suggest that the bureaus should be able to easily meet the Commissioners' directive. However, even a 4.53% combined increase may seem unaffordable to many of Portland's more vulnerable residents. At 4.5% per year, the combined utility bill will double in 16 years. The PUB would encourage the bureaus to continue to look for efficiencies and cost-savings in both their operating and capital budgets.

The bureaus' budgets "should demonstrate our shared commitment to providing high-quality services at a good value." One key to providing high-quality services is linking the budget requests to a strategic plan. Budgets reflect the values of an organization and tying those values to a well-thought out strategic plan that connects resources to outcomes can demonstrate to residents that their taxes and fees have tangible results.

The "Future BES Transition Team" has articulated their goals and has focus area teams up and running. More than 100 people across the bureau are engaged in reviewing processes, governance, and functions, and developing a change management plan. PWB is in the process of developing their strategic plan along the lines of BES. PUB members have been updated on the progress of PWB's strategic plan and participating where appropriate. When both strategic plans are fully implemented, the bureaus' budgets should clearly and transparently communicate that "shared commitment."

The Commissioners also asked that the bureaus "prioritize outreach about the...new financial assistance programs to ensure that eligible customers are aware of the help that is available." The PUB supports this outreach and sees it as an important part of a comprehensive approach to public engagement. Last September, the Low-Income Assistance team was introduced at the PUB meeting and provided a briefing of the program and its goals. We agree with the Commissioners that it is vitally important for this program to be successful as it is a necessary component to the overall goal of affordability. We hope to have an update on the progress of the program in the near future.

EQUITY

In addition to the above, the Commissioners' letter also asks the bureaus to "continue to increase investment in equity and inclusion." An important change in moving to Program Offer budgeting is to specifically include equity impacts in the budget process to:

"describe how programs benefit and/or burden communities, specifically communities of color and persons with disabilities...to clarify how resources could be reallocated within the base budget in order to achieve more equitable outcomes."

The PUB is encouraged by the initial attempts by both BES and PWB to understand and articulate these impacts.

PORTLAND WATER BUREAU

PWB has 22 Program Offers. Of the 11 that the PUB has been able to examine thus far, a number of them show "no program changes planned for next fiscal year" aside from inflation adjustments and personnel costs. Performance measures have not been articulated yet but will be when the requested budget is submitted. The PUB looks forward to reviewing those metrics in light of the above comments about accessibility and context. PWB is not requesting any new FTE at this time. Over the last four years, the Water Bureau requested 29 positions, 17 of those were requested for FY 2018-19. Since a number of those positions have yet to be filled, PWB decided that it would be prudent to wait until those positions had been filled, then evaluate their needs before moving forward with other FTE requests. The PUB agrees with this decision.

Overall, the draft program offers that the PUB has reviewed are clear and concise. We look forward to reviewing the entire budget and providing comments and recommendations to the City Council at the appropriate time.

BUREAU OF ENVIRONMENTAL SERVICES

BES has 28 Program Offers. The PUB has seen a couple of drafts of all 28 as BES has revised them over the last couple of months. As of the last iteration, BES was still working on finalizing the program budgets and revising the performance measures. Some programs have metrics, although there are a number of metrics that are used for multiple programs. As with PWB, the PUB looks forwards to reviewing the performance measures in terms of accessibility and context. Of note with the BES budget is requests for 21 new FTE. Over the last four years (FY 2015-16 to FY 2018-19) BES has requested 72 FTE. Of those 72 FTE, 59 have been filled, 5 are currently under recruitment, and 8 are currently vacant. Adding the 21 newly requested FTE would bring the total to 93 FTE over 5 years, a substantial increase in staffing (about

18% increase). As CUB's memo of January 14 suggests, "An ongoing question for BES from CUB has been when it will be "right-sized?"

COMMENTS ON SPECIFIC BUDGET PROPOSALS

The board will reserve its recommendations on individual program offers until after the PUB analyst and CBO reviews and recommendations are complete. PUB members will review these analyses and recommendations, 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 plans, and expected outcomes.

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 as the budget process continues through the spring.