

PORTLAND UTILITY BOARD

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To: Mayor Ted Wheeler
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Chloe Eudaly
Commissioner Jo Ann Hardesty
Auditor Mary Hull Caballero

Re: PUB Recommendations for the Bureau of Environmental Services
and the Portland Water Bureau FY 2019-20 Requested Budgets

Date: **March XX, 2019**

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). On February 7, 2019, PUB submitted its initial input on the requested budgets of the bureaus and submits this correspondence as its specific recommendations. This letter is submitted 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. (PCC 3.123.010)”

This letter is our second during this budget cycle and summarizes the PUB recommendation on the one decision package submitted in the budgets as well as general recommendations for the bureaus' base budgets. There was a range of discussion on the budgets, but all recommendations received majority agreement and full consensus on what to communicate as priorities to Council.

The PUB has held over 20 hours in 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. The PUB receives significant support from both bureaus' directors and staff, the ex-officio members, Commissioners Fish and Fritz and their staff, as well as the City Budget Office and our PUB staff. We are grateful for their collective efforts to help us understand and navigate the complexities of these utilities and their budgets.

The PUB members reviewed the analysis of the City Budget Office and our PUB analyst, considered input from the bureaus, and weighed the requests through the lenses of the PUB's stated values, cost, impact on service delivery, connection to strategic plans, and expected outcomes. PUB finalized its recommendations at the March 14, 2019 meeting. #XX members were not in attendance at the meeting.

FY 2019-2020 Requested Budgets

The Bureau of Environmental Service's (BES) FY 2019-20 budget request includes \$348.9 million in operating expenses and capital projects in the next year, and an additional 20 FTE. There are no decision packages to consider. The total rate of increase for the typical single-family household to support the bureau's requested budget would be 3.0%.

The Portland Water Bureau's (PWB) FY 2019-20 budget request includes \$290.5 million for operating expenses and capital projects for the next year, with very limited change in staff. The one decision package is a request for \$1.1 million General Fund for preservation work at Mt. Tabor. The total rate of increase for the typical single-family household to support the bureau's requested budget would be 7.4%.

Including the proposed rate of increase for both the PWB and BES, the combined monthly utility increase would be 4.53%. This results in a typical single-family residential bill increasing by \$5.11 from \$112.79 per month up to \$117.90 per month. The final rate of increase will depend on the items that are approved by City Council through the budget process.

Direction to Develop – DP 7731- Mt. Tabor Historic Preservation – Request from General Fund

PWB requested \$1.1 million from the General Fund for preservation work at Mt. Tabor. This is the fourth year of General Fund support to fulfill a City Council resolution from 2015 to allocate \$4 million for such work. This request does not impact water rates if Council decides to continue to utilize General Fund to meet this commitment as in prior years. The board has had robust conversation about this challenging request and members have shared concern about the inequity of investing limited resources in a single location for years when there are other higher priorities for asset investment in the City. The board has also previously raised concerns

that the \$4 million commitment from City Council would fall short of the total cost to complete the preservation work needed at Mount Tabor and does not include the long-term costs of operating and maintaining the assets.

The PUB supports City Council revisiting this decision given priorities for funding with a focus on ensuring that future settlement agreements appropriately consider long term equity implications and impacts of financial commitments on future years. If Council determines that the work should continue for the fourth year of the commitment, then the board urges the continued use of General Fund for this work. To shift this expense to utility ratepayers would have a significant negative impact on rates and affordability.

Affordability

The PUB appreciates the consolidated budget guidance letter for FY 2019-20 from Commissioners Fish and Fritz. We commend the Commissioners for their shared budget guidance and commitment to keeping the bureaus aligned. Their letter emphasizes several our own values including affordability, value to customers, and assistance to low-income residents among others. We look forward to continuing to work with both Commissioners and their staff.

Annual Rates of Increase

The bureaus met the Commissioners' directive that the budgets reflect a "combined rate increase of no greater than 4.53%." However, even a 4.53% combined increase may seem unaffordable to many of Portland's more vulnerable residents. The projected increase for PWB is forecast at 7.4% each year, which could result in a water bill doubling in about 10 years. Although BES' rate increases more consistently with inflation at approximately 3% each year, the combined utility bill for a typical single-family is expected to increase by 20% in the next 5 years. The PUB encourages the bureaus to continue to look for efficiencies and cost-savings in both their operating and capital budgets to limit rate increases as much as possible. With the rate on a trajectory to outpace inflation, Council also needs to acknowledge the level of the increase and relationship to funding the sustainability of a 100+ year system as they give future direction to the bureaus.

Staffing Impacts

The PUB will continue to monitor staffing levels, as they have increased in recent years and this year include the addition of 20 full time equivalent positions in BES. We commend the PWB for not adding staff in this budget and focusing efforts on completing hiring of past positions. The bureaus have made improvements in filling vacancies, but this continues to be an area to improve upon to ensure adequate capacity within existing budgeted positions to make progress on program activities and capital projects. Although the PUB is not debating the need for specific position changes requested by BES this year, the addition of ongoing staffing has long term impacts on the financial plan. It is important to track staffing levels in coming years, particularly with the anticipated slowing of the economy that could reduce revenues needed to

support the increased ongoing staffing expenses.

Low-Income Discount

The PUB was engaged by the bureaus' in development and implementation of the low-income discount program, which provides a good foundation for mitigating the impact of rates on those most vulnerable. We agree with the Commissioners that it is vitally important for this program to be successful because it is a necessary component to the overall goal of affordability. The PUB advocates for good data collection to ensure success and identify areas for enhancement to maximize the use and positive impact for those that need it. We will continue to engage in evaluation of the program and are particularly interested in efforts to explore the program's applicability to multifamily housing.

Affordability for Multifamily Housing

The PUB recognizes that the challenge of affordability for multifamily housing is a concern that is much broader than utility rates. All of Council, relevant City bureaus and other partners need to be thinking about a more wholistic approach and consideration of all tools that could help address affordability for multifamily housing. The PUB respectfully requests to be included in the broader discussion as it happens.

Program Offers and Performance Metrics

A critical priority for the PUB is early development and implementation of meaningful and measurable performance metrics to monitor success of the programs at PWB and BES. We recognize that the shift to program offer budgeting presented a challenge for both bureaus and their staff, and that both bureaus are also working towards aligning performance measures with their Strategic Plans and Equity Plans. The PUB is eager for the metric development and implementation to be early enough that some measurables will be available to evaluate program offers, budget decisions, increases in staffing, and success of Strategic Plan implementation during the next budget cycle.

Next Steps

The PUB views this opportunity to comment on the bureaus' budget submissions as one of several touch points with City Council throughout the annual budget and planning processes. We appreciate the opportunity to submit our initial comment letter and to participate in the PWB and BES budget work sessions earlier this month. We look forward to providing you further input as the budget process and rate hearings continue through the spring.