



Oregon Citizens' Utility Board

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To: Mayor Ted Wheeler
Commissioners Chloe Eudaly, Nick Fish, Amanda Fritz, and Jo Ann Hardesty
Community Budget Advisory Board
Jamie Dunphy, Office of Commissioner Fish
Michael Jordan and Jonas Biery, Bureau of Environmental Services (BES)

cc: Portland Utility Board (PUB) c/o Cinthia Diaz Calvo and Amy Archer-Masters
Jessica Kinard, Interim City Budget Office (CBO) Director
Elizabeth Gallagher, CBO

From: Janice Thompson, Oregon Citizens' Utility Board (CUB)

Re: CUB Input on BES FY 2019-20 Budget and CBO Report

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Introduction

First, a quick introduction to CUB and its role regarding outside independent oversight of City Council management of Portland's public utilities for new members of the City Council and the Community Budget Advisory Board. CUB is a nonprofit formed in 1984 by Oregonians via a ballot measure to do analysis and advocacy for residential customers of utility services. CUB works on energy and information communications technology issues in the regulatory arena as well as in federal, state, and local legislative venues.

In 2014, CUB was asked to provide independent oversight of City Council's management of the Portland Water Bureau (PWB) and Bureau of Environmental Services (BES) from an outside perspective. The City does not pay CUB for this work, but we are provided the opportunity to do membership outreach in utility bureau mailings. A notable accomplishment was removing an inappropriate developer subsidy regarding BES calculation of system development charges due to actions by a previous City Council. CUB has long advocated for low income utility customer assistance including expansion of the City of Portland's public utility low income programs.

Second, this is CUB's "phase 2" memo and focuses on development of the Mayor's budget. CUB's "phase one" memo in January of this year provided input on development of the requested BES budget. Our third budget memo will be presented as testimony during the May rate hearing. This sequence of memos includes one each to PWB and BES. However, this memo begins with input pertinent to both of Portland's public utility bureaus followed by BES specific comments.

Input Pertinent to Both Portland Public Utilities

Combined rate increase meets budget guidance

CUB appreciates that Commissioners Fish and Fritz released a joint budget guidance memo. The individual rates of each PWB and BES are obviously important, but customers see a bill for water, stormwater, and sewer services so combined rate guidance is a valuable approach. The requested PWB and BES budgets meet the guidance memo directive. The FY 2019-20 combined rate increase, 3 percent for BES and 7.4 percent for PWB, meets the 4.53 percent combined rate guidance memo. In terms of dollars, the average residential customer's monthly bill would increase by \$2.90 for PWB services and by \$2.21 for BES services for a combined increase of \$5.11. The quarterly bill would increase by \$8.70 for PWB services and by \$6.63 for BES services for a combined increase of \$15.33. These are sobering figures, but CUB appreciates that they reflect the understanding by Commissioners Fish and Fritz of the significant role played by resiliency and regulatory drivers of rate increases. In addition, these figures highlight why CUB has been a staunch supporter of Portland's low income assistance programs.

Conduct analysis of low-income assistance programs on a combined PWB and BES basis with recognition of PWB's management leadership

CUB fully supports co-branding that conveys that financial support for public utility low income assistance programs comes from both BES and PWB. It is also appropriate that PWB continue its historic leadership role in managing low income assistance programs, which they do in consultation with BES. Given this background, CUB recommends that CBO's analysts for the two utility bureaus combine forces and prepare one set of low-income program comments and suggestions for inclusion into both the PWB and BES reports. Just as PWB and BES collaborate regarding the low-income program, similar collaboration to develop one CBO assessment will help mitigate the inevitable loss of institutional memory linked to changes in CBO analyst assignments. More importantly, since PWB provides overall low-income assistance program management, they will frequently be the appropriate respondent to CBO questions coming from either the PWB or BES analyst.

Affordability measurement and low-income assistance programs CBO analysis would benefit from income inequity context

CUB supports the CBO's suggestion for the PWB to look for other affordability measurements. CUB has also long supported the need for a rate study by BES and while affordability will be a factor in that work, we suggest further discussion between CBO and BES to ensure a shared understanding of the scope of the rate study effort. In CUB's view, however, CBO discussion in both its PWB and BES reports would benefit by additional context regarding the significant and growing income inequity in Portland. CUB discussed this dynamic in detail in our phase one memo regarding development of PWB's FY 2018-29 budget but the following comments bear repeating regarding the current PWB and BES reports by CBO.

It is vitally important that utility investments are prudent, strategic, and provide good value for all customers. Beyond that baseline, however, it seems appropriate to target rate-relief mitigation efforts on two groups: 1) low-income residents who frequently cannot pay public utility costs, particularly very low income customers, and 2) customers who can pay their public utility costs but might benefit from household finance management tools like the monthly billing option where a quarterly meter read is separated into three bills.

That there are Portlanders who may complain but can afford Portland utility rates is illustrated by only slightly more than 12 percent of quarterly accounts having requested the monthly billing option with about half of those accounts having originally been in a budget billing program. CUB supports more outreach on the monthly billing option. But even if that participation rate quadrupled, there would still be many Portland utility customers whose quarterly bill preference indicates they can deal with higher rates even when the bills come in those larger quarterly amounts. This contributes to CUB's strong and continued support for low income assistance programs.

Of particular importance to CUB, is the new multi-family crisis assistance program which reflects PWB's dogged efforts to address a national problem of how to provide relief regarding the cost of water, stormwater, and sewer services to low income renters. From the beginning PWB has planned for evaluation of this program that uses the existing Home Forward Short-Term Rent Assistance (STRA) Program as a vehicle to provide additional support to rental households in crisis. CUB looks forward to this evaluation since, if proven effective, an expansion of this effort from its initial financial support level would merit the Council's serious consideration.

Without more analysis CUB does not support CBO's recommendation for a 1.5 FTE staffing level for the Portland Utility Board in FY 2019-20

Why does the Portland Utility Board (PUB) have staff support? A Blue Ribbon Commission evaluating oversight of Portland's public utilities, on which CUB served, met during the last half of 2014 and made several oversight improvement suggestions to the City Council. One recommendation was to revamp an earlier internal oversight group to form the PUB with staff capacity. The PUB operates year-round and serves as the Budget Advisory Committee for PWB and BES during budget season. The Blue Ribbon Commission recommended one staff analyst for the PUB and recognized that this position, though housed at CBO would be working for the PUB and not the City Council with the financial support of PWB and BES ratepayers. The Blue Ribbon Commission's report also mentioned the need to continue the current (then and now) one FTE equivalent at CBO to assess PWB and BES budgets for the City Council. In other words, the Blue Ribbon Commission was cautioning against asking the PUB's staff person to replace the CBO analysts who write the public utility assessment reports to City Council. The earlier oversight group got administrative support from CBO and it was the Blue Ribbon Commission's understanding that this would continue for the PUB.

CUB supports continuing the one FTE PUB analyst position, but without more assessment we do not support the 1.5 FTE PUB staffing level in CBO's requested budget which would increase by 50 percent the assessment on PWB and BES for this purpose. A change from 1 to 1.5 FTE was discussed at the PUB's January 17th meeting with acting CBO director Jessica Kinard within the context of addressing a PUB staffing transition. At that meeting CUB provided this historical background and stated our concern that though a short-term FTE increase to get through a staffing transition seemed OK, a cost-benefit analysis should be done to justify a longer-term change from 1 to 1.5 FTE for PUB staffing.

CUB typically attends PUB meetings to help BES and PWB avoid duplicative work with us and have had concerns about PUB's decision to meet twice a month rather than the original monthly schedule in terms of increased time demands on BES and PWB staff, increased CBO administrative work load, and an increased frequency in what seem to be meeting agendas and PUB member attendance levels that are not consistently robust. Just as the PUB expects analysis of budget requests made by BES and PWB, applying this concept to their own work seems appropriate.

CUB also requests that CBO return to its previous practice of having its BES or PWB analysts, who routinely attend PUB meetings, take minutes for those meetings. This approach would be facilitated by a return to monthly PUB meetings. A final note is that at its January 17th meeting, one PUB member indicated that it seemed worthwhile to evaluate different meeting approaches and another PUB member only voted for a 1.5 FTE staffing level on an interim basis. The PUB plays a valuable internal oversight role and, to repeat, CUB supports a 1 FTE staffing level. We might also be persuaded to support a 1.5 FTE staffing configuration, but not without an evaluation of PUB operational practices and efficiency opportunities.

CUB Comments on CBO Report on BES FY 2019-20 Requested Budget

CUB agrees with many, but not all, of the points made by CBO in its report to Council on BES's requested budget. For that reason, our comments focus on CUB's disagreements or concerns about CBO's analysis with cross referencing to specific pages in the CBO report.

CBO report pages 3-4 - Rate Stabilization Fund

CUB understands continued examination of BES management of its Rate Stabilization Fund in CBO reports, but is concerned that the current CBO discussion does not adequately emphasize its final sentence regarding the "risk in drawing upon the fund in the short term, however, is the out-year result of higher rate increases to customers to effectively 'make up' for the missed revenue." Indeed, over CUB's objections such a cost shift occurred in the final BES 2018-19 budget. CUB commends BES and Commissioner-in-Charge Fish for not repeating last year's short-sighted use of rate stabilization fund dollars and urges the Mayor to follow Commissioner Fish's lead in this regard in the BES FY 2019-20 budget.

As CUB mentioned in its May 2018 rate hearing testimony and in its January 2019 phase one memo: "CUB recommends against any future short-term tinkering with the rate stabilization fund" since it "replaces the financial planning expertise of BES staff with the more short-term thinking all too commonly a priority of elected officials." More emphasis on this point in the current CBO report would have been appropriate.

CBO report pages 4-6 - differential between forecasted and actual CIP spending and Lake Oswego

CUB concurs with the CBO discussion of BES improvements due to its Capital Improvement Program Progress Review and Enhancement Project (CIP PREP) as well as opportunities for improved metrics. However, CUB is concerned that the last paragraph and chart at the bottom of page 5 could leave readers with what we see as an inaccurate impression that it is possible for actual CIP spending to exactly track forecasted CIP spending. Closing this differential is important but it is also important to realize that due to project delays and other factors influencing actual CIP spending, frequently for reasons beyond the control of BES, means that no differential between forecasted and actual CIP expenditures is not a realistic goal. This is akin to the unlikely occurrence of a home remodeling project costing exactly the amount in a homeowner's remodeling budget. Just as this is not a realistic goal at a household level, it is not a realistic goal for BES.

Regarding the last two lines in the top paragraph on page 6, it is important to note that the significance of Lake Oswego's exploration of alternatives to the current Tryon Creek treatment facility may not be adequately conveyed with such a short discussion. CUB recognizes the challenge that CBO faces in the level of detail to include in its reports and has highlighted this Lake Oswego dynamic in its testimony to City Council at last May's rate hearing; but the possible budget impacts are significant enough to merit mentioning again here.