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To: Mayor Charlie Hales
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Steve Novick
Commissioner Dan Saltzman
Auditor Mary Hull Caballero

Subject: Budget Submissions for the Bureau of Environmental Services and the Water Bureau

Date: January 29, 2016

The Portland Utility Board (PUB), officially convened in September 2015 and has met eight times to build our understanding of the mission, operations, budget, and finance processes of the Water Bureau and Bureau of Environmental Services (BES). The PUB submits this budget letter in response to our 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)”

Given the complexity of these utilities and continuous demands on each bureau, the PUB is looking at current practices, but with an eye towards the future. For both bureaus, the operations budget for fiscal years 2016-17 and the five-year capital improvement plan (2016-2021) are products of previously developed programs, plans, and studies that guide the management of water-related infrastructure. In addition, both bureaus have new directors who are in the process of assessing and realigning their organizations to address future needs. As such, the PUB does not expect to significantly influence this year's budget proposals.

Nonetheless, the PUB intends to remain engaged in the decision-making process for FY 2016-17. To date, the bureaus have presented the PUB with a general

sense of their decision-making processes and have briefed us on some of the key decisions that will inform their budget requests. While these discussions have provided context for the budget and a sense of the issues that the bureaus hope to address, we look forward to receiving the final details provided in the requested budget submissions. Subsequently, we will receive the analysis of those requests by the utility analysts in the City Budget Office. After deliberation on the final submissions and the CBO analysis, we expect to provide additional communication to City Council that addresses the detailed issues in the submissions. From there, we look forward to participating in the budget work sessions in March, engaging with the Mayor as he develops his proposed budget, and participating in the utility rate hearing in May.

The PUB's influence in advising the bureaus and City Council will be best achieved working "upstream" of this year's budget process. To this end, we look forward to additional briefings from the bureaus to improve our understanding of the existing processes and will be identifying places in those processes where PUB can be most effective in carrying out its charge to advise the City Council. For now, we offer the following observations and suggestions:

- The PUB is very interested in being an engaged partner in the strategic planning processes of both bureaus that are currently underway and will continue this year. The PUB encourages the bureaus to include critical stakeholders (at local and regional levels) in those processes and also to examine and update key performance measures as necessary to track, manage, and communicate bureau activities and accomplishments.
- Through integration of existing facilities and systems planning efforts, the Bureaus should continue to prioritize resiliency and address the projected impacts of climate change (especially hydrologic and temperature shifts) and earthquake vulnerability. The bureaus should work closely with other service providers in the Willamette and Columbia River region to determine the most cost effective, efficient, and robust manner in which to manage all water-related infrastructure for the public in both the "new normal" and true emergency situations.
- The PUB, echoing the recommendations of the Blue Ribbon Commission, feels strongly that there is a need for improved communication between the bureaus and their customers. As part of the strategic planning mentioned above and using existing resources, both bureaus should examine current communication activities and identify ways to better convey the depth and breadth of bureau work, the value provided for the dollar (and how much is covering debt service), and increase the transparency and availability of financial and program information.
- The PUB encourages the bureaus to address affordability in a holistic, integrated manner. In response to a request from Commissioner Fish, the PUB has created a subcommittee to examine the Low Income Discount Program. At this time, the PUB endorses the Water Bureau's activities to increase outreach to households who are currently eligible for the Low Income Discount Program but not enrolled, with the goal of reaching the already budgeted-for 10,000 households. The subcommittee will continue to evaluate a full range of broader options during the spring and will make additional recommendations in the summer. The committee's goal is to examine equity of access issues within the existing Low Income Discount Program and the feasibility or effectiveness of using the utility bureaus' resources to meet broader policy goals. At this stage, it is unknown whether our recommendations will have any budget implications. To the extent that future recommendations do have a budget impact, those additional resources would not be needed in the upcoming fiscal year.

Framing the vision for the bureaus to strengthen and maintain the public trust, and fine-tuning the bureaus' cultures to ensure that they are more inclusive, transparent, and cooperative, will encourage

meaningful community dialogue and understanding that will serve the bureaus in the future as they request regular increases in rates over time.

The current budgets and Capital Improvement Plans (CIP) reflect the ongoing work and organizational culture of both bureaus. The PUB submits the following observations on specific elements within the bureau budgets and CIPs:

- The PUB encourages both bureaus to continue to assess staffing needs through their strategic planning processes and focus on filling critical, currently vacant positions this year.
- BES Projects:
 - Ongoing review of the bio-gas utilization and organic waste receiving facility projects at the wastewater treatment plant for their costs and benefits should continue to ensure proper use of ratepayer funds (see CUB memo).
 - As the bureau works on its wastewater facilities planning and the stormwater systems planning, the PUB encourages an open and transparent process to ensure long-term costs of options are adequately addressed before recommendations for upgrades are made.
- Water Bureau Projects:
 - The PUB does not support using ratepayer funds to pay for historic preservation activities at Mt Tabor.
 - Washington Park Reservoir is sited in the center of a significant and historically active landslide hazard zone according to Oregon Department of Geology and Mineral Industries. While the bureau has engaged in significant research and planning to mitigate potential risks, those activities, as well as the evaluation of alternatives, cost increases to date, and on-going project monitoring need to be more clearly communicated to the public.
 - The Willamette River Crossing is also an expensive and sizable project designed to fortify the weakest and most difficult section of the west side distribution line to repair in the event of an earthquake. The PUB looks forward to future briefings from the Bureau about their current assessment of the resiliency of the overall water system and the Bureau's expectations of how this and the Washington Park Reservoir work will strengthen the system. In addition, the PUB encourages the bureau to continue and to find new ways to communicate this information with the public to right size expectations.

The PUB views this opportunity to comment on the bureaus' budget submissions as the first of several touch points throughout the annual budget and planning processes. We look forward to providing you further advice as these processes continue through the spring.