



DATE: November 7, 2017

TO: Portland City Council
Auditor Mary Hull Caballero

FROM: Nick Fish, Commissioner *NF*

CC: Council Clerk

SUBJECT: Accept FY 2016-2017 Portland Utility Board Annual Report

Attached is the second annual report of the Portland Utility Board (PUB).

In 2014, the City charged a Blue Ribbon Commission (BRC) with improving oversight of the City's public utilities.

The BRC ultimately recommended a new committee - PUB - to replace three existing oversight bodies: the Portland Utility Review Board and budget advisory committees for the Portland Water Bureau and the Bureau of Environmental Services.

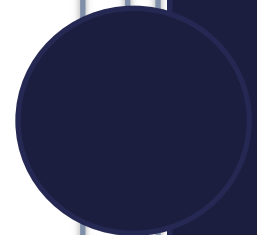
In its second year, the PUB provided extensive input on the bureaus' budgets, and informed policy positions in areas such as BES' strategic plan, Terminal 1 disposition and water quality.

This report includes an overview of the Board's activities for FY 2016-17 and goals for the next year.



PORTLAND UTILITY BOARD

FY 2016-2017 Annual Report



PORTLAND UTILITY BOARD

Members:

Allan Warman, Co-chair

Colleen Johnson, Co-chair

Meredith Connolly

Ted Labbe

Robert Martineau

Micah Meskel

Lee Moore

Dan Peterson

Scott Robinson

Hilda Stevens

Mike Weedall

Ex-officio Members:

Alice Brawley-Chesworth

Ana Brophy

Van Le

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To: Mayor Ted Wheeler
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Chloe Eudaly
Commissioner Dan Saltzman
Auditor Mary Hull Caballero

From: Portland Utility Board

Re: FY 2016-17 Annual Report

Per Chapter 3.123 of Portland City Code that governs the Portland Utility Board (PUB), please find attached our Annual Report for FY 2016-17 and a preliminary workplan for the upcoming year.

To act as effective advocates for the citizens of Portland, board members need a broad understanding of utility management, bureau operations, and the city budget process. As you will see from the report, the PUB's second year saw an intensive examination of these areas, education of members, and development both of mechanisms and structures for engagement with the bureaus, City Council, and the public. The PUB also acted in the capacity of the Budget Advisory Committee for the bureaus, reviewing the capital and operating budgets for FY 2017-18, as well as the proposed rate and fee schedules. Finally, the PUB engaged in several policy considerations facing the city including the use of Terminal 1 North and water quality.

The proposed FY 2017-2018 workplan is designed to help the bureaus integrate the PUB into their work flow. The board has identified equity, public and community engagement, regulatory compliance, strategic planning, green infrastructure, operational efficiencies, resiliency and emergency preparedness, and interbureau coordination as specific topics for engagement in the next fiscal year, in addition to its responsibilities as part of the budget process. To increase its effectiveness in providing utility oversight and to facilitate that public engagement, the PUB requests City Council members to take a more proactive role in bringing issues related to either bureau to our attention early in the development, but certainly well in advance of City Council action.

The members look forward to a constructive dialogue with the City Council and bureaus in FY2017-18.

Portland Utility Board FY 2016-17 Annual Report

Executive Summary

The Portland Utility Board (PUB) serves as the volunteer, citizen-based, advisory board for the Bureau of Environmental Services (BES) and the Portland Water Bureau.

Over the course of the 2016-17 fiscal year, the PUB held 14 regular and 8 subcommittee meetings. Board members also visited utility facilities to deepen members' understanding of the opportunities and challenges facing both utilities. The board reviewed preliminary operating budget information and the major additions and adjustments to the five-year capital improvement plans for both bureaus. During the city process for approving bureau budgets, the board provided written recommendations and observations to the City Council, participated in council work sessions and mayor meetings, and provided testimony during council consideration of budget requests and rate ordinances. In addition, board members participated as stakeholders for BES' preliminary work on its strategic plan and convened two special issue-specific meetings related to Terminal 1 North and water quality.

In the coming year, the PUB looks forward to its continued work with the Commissioner and the bureaus on behalf of the residents of Portland. Specifically, in addition to its responsibilities as part of the budget process, the board has identified the following topics for engagement: equity, public and community engagement, regulatory compliance, strategic planning, green infrastructure, operational efficiencies, resiliency and emergency preparedness, and interbureau coordination.

Introduction

The PUB began its service to the city on September 1, 2015. Its formation and general structure was recommended by the Portland Utility Oversight Blue Ribbon Commission which, in 2014, evaluated the need for additional oversight of Portland's utility bureaus – the Portland Water Bureau and BES. In response to that evaluation, the PUB was created 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. (Portland City Code. (3.123.010)”

To act as effective advocates for the citizens of Portland, board members need a broad understanding of utility management, bureau operations, and the city budget process. The PUB's second year saw an intensive examination of these areas, education of members, and development both of mechanisms and structures for engagement with the bureaus, City Council, and the public.

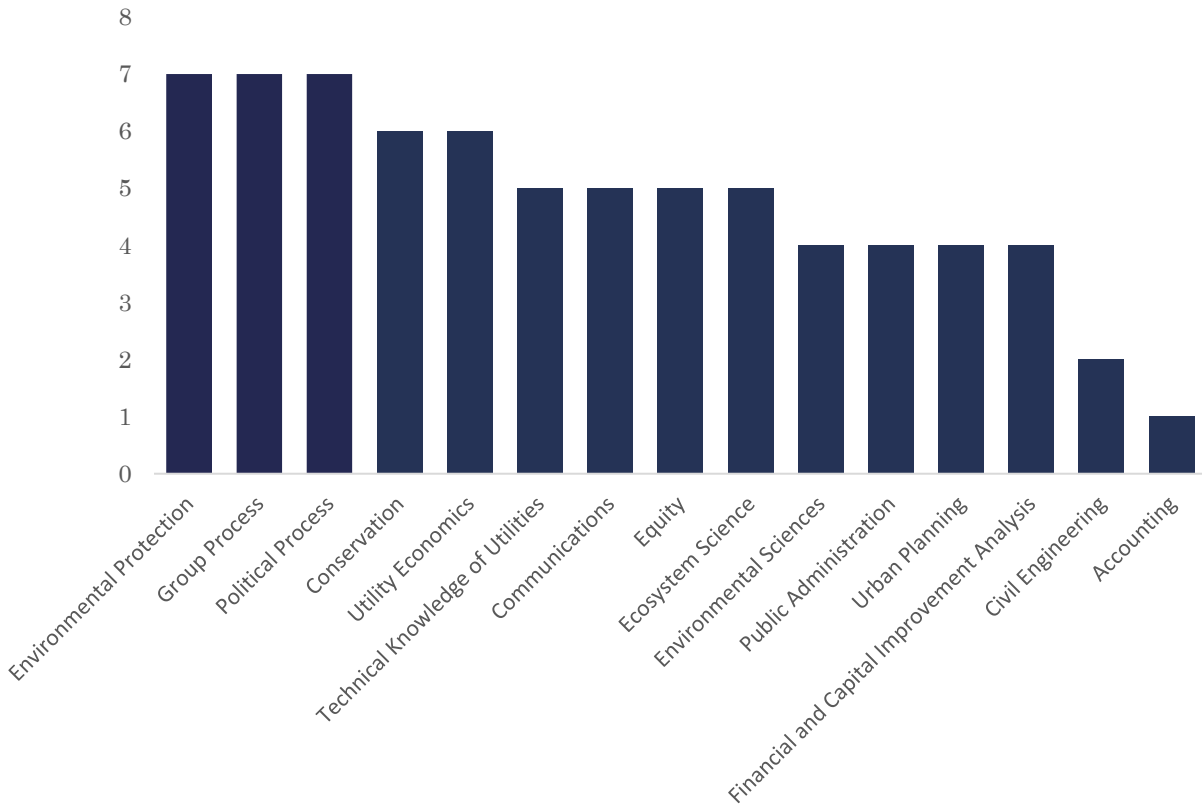
The following sections detail the investments made by both board members and bureau staff to increase the knowledge foundation of members, the opportunities provided for public engagement in budget and policy discussions, communications to the City Council, and the refinements made to better integrate PUB oversight into the bureaus and the City's budget processes.

Member Compositions and Education

The PUB has 11 voting members and three ex-officio members. In September 2016, City Council approved two amendments to City code for the board; expanding voting members from nine members to 11 members and clarifying that ex-officio members serve year-round. Through FY2016-2017, the board filled the newly authorized positions as well as filled vacancies, some created by members who ended their service early and others from natural expiration of appointment terms.

The ordinance governing the PUB identifies the following skills that will serve the board well: technical knowledge of water, stormwater, and sewer utility operation and issues, accounting, civil engineering, conservation, environmental sciences, health sciences, public administration, urban planning, or utility economics, financial and capital improvement analysis, ecosystem science, environmental protection, political process, group process, and communications. The board worked this past year to increase the number of members with equity, communications, and environmental experience. The skill mix of members for FY 2016-17 is illustrated in the graph below.

Members of the Portland Utility Board bring a broad spectrum of experience that City Council identified as critical to utility oversight.



As part of the recruitment process this fiscal year, PUB staff created an onboarding curriculum to educate new members on city budget processes, ethics requirements, and introductory information for both BES and the Water Bureau to jump start their participation in the board activities. This educational component will continue to evolve and staff is currently working with the bureaus to create the next level of educational components focused on the bureau budgets.

Member Service and Board Meetings

Through June 30, 2017, the members of the PUB dedicated more than 450 hours of service in formal meetings plus additional hours preparing for meetings. The PUB held fourteen board meetings (Table 1). Summaries of all meetings can be found on the PUB website.

Table 1: FY 2016-2017 PUB Board Meetings

July 12, 2016	January 10, 2017
Stormwater System Plan	Budget Update
Clean River Rewards	Customer Service Survey
Portland Harbor Update	Equity
Water Bureau Key Service Levels	Recommendation of New Members
August 2, 2016	February 7, 2017
Summer Supply Plan	Rate Methodology
Groundwater	Water Quality Update
Introduction to Watershed Services	Portland Harbor Update
Terminal 1 North	
Prior Year Review, Annual Report, Work Plan	
August 8, 2016	March 7, 2017
Terminal 1 North	Anderson Lawsuit Update
	City Budget Office Bureau Budget Reviews
	CIP Quarterly Update
	Mt. Tabor Preservation Work
September 6, 2016	April 4, 2017
BES CIP Development	Regulatory Environment of Water and BES
Water CIP Development	BES Strategic Plan
Annual Workplan	BES Resiliency and Climate
	BES Public Awareness Focus Groups
October 4, 2016	May 2, 2017
BES Strategic Plan	Budget Update BES FTEs
BES 5 Year Financial Plan	Rate Ordinance Previews
Water 5 Year Financial Plan	Strategic Direction of the Bureaus
Sewer 101 and CSO System Operations	Recommendation of Co-chair
Amendment of Board Bylaws	
November 1, 2016	May 31, 2017
Introduction to Pollution Prevention	Water Quality
Forecast Model and Assumptions	
Budget Developments	
Onsite Visit to Pollution Control Lab	
December 6, 2016	June 6, 2017
Budget Update	Recommendation of New Members
Staffing Decisions	Biogas Project at BES
	Water Quality Update
	Strategic Direction of the Board

The board's FY 2016-2017 work plan identified five major areas of review for the PUB: Financial Planning and Budgeting, Rate Setting and Debt Service, Strategic and Resiliency Planning, Bureau Performance, and Bureau Engagement and Oversight (Table 2). Each PUB meeting was



PUB members Scott Robinson, Alice Chesworth-Brawley, Julia Person, and Ted Labbe at a board meeting.

designed to further the members' understanding of the challenges and opportunities facing each bureau within these areas of review. In between meetings, there were substantial reading materials to help members fully understand the depth and breadth of the services of each utility.

Table 2: FY 2016-2017 Topics Reviewed by Workplan Category

Financial Planning and Budgeting	
Bureau 5 Year Financial Plans	Capital Improvement Plans
Forecast Model and Assumptions	2017 Budget Development Updates
Staffing Decisions	CBO Budget Analysis and Reviews
Rate Setting and Debt Service	
Rate Methodology	Rate Ordinance Previews
Strategic and Resiliency Planning	
BES Strategic Plan	BES CIP Process Review
BES Resiliency and Climate	Strategic Direction of the Bureaus
Bureau Performance	
Water Bureau Key Service Levels	Water Bureau Customer Service Survey
Bureau Engagement and Oversight	
Anderson Lawsuit Update	Pollution Prevention
Biogas	Portland Harbor Superfund
Corrosion Control	Sewer 101 and CSO System Operations
<i>Cryptosporidium</i>	Stormwater System Plan
Equity	Summer Supply Plan
Groundwater	Terminal 1North
Hydroelectric Power Contracts	Watershed Services
Board Administration	
Amendment of Bylaws	Prior Year Review, Annual Report, and Workplan
Recommendation of New Members and Chair	

PUB members participated in a total of 8 subcommittee meetings for the low-income discount program (3 meetings) and budget review (5 meetings), (Table 3). Members also visited the Bull Run Watershed, the Portland Water Pollution Control Lab, and the Columbia Boulevard Wastewater Treatment Plant.



PUB members visit Columbia Boulevard Wastewater Treatment Plant with BES staff.

Table 3: FY 2016-17 PUB Subcommittee Meetings and Participation in ARC Meetings

Low Income Discount Subcommittee	Administrative Review Committee Meetings with the Bureaus
October 26, 2016	August 2, 2016
January 4, 2017	October 4, 2016
February 22, 2017	November 1, 2016
	January 3, 2017
	February 7, 2017
Budget Subcommittee	March 7, 2017
October 25, 2016	April 4, 2017
November 17, 2016	May 2, 2017
January 5, 2017	May 5, 2017
March 2, 2017	May 31, 2017
April 13, 2017	June 6, 2017

Communications to Council

The PUB was created to have multiple opportunities to communicate to the City Council on budget and other issues relating to the two utilities. (See Appendix for written communications.)

FY 2017-18 Budget Process

The PUB spent last fall reviewing various components of the FY2017-18 budget requests that the bureaus were crafting and, as part of its role as the Budget Advisory Committee for both bureaus, submitted its initial observations with those requests. Following the budget submissions, the PUB considered the final decision packages and the CBO review of those

items. The PUB concurred with most of those recommendations and co-chairs communicated that to the City Council as part of the utility worksession in March.

As part of the Mayor's budget process, BES requested two additional FTEs and Mayor Wheeler requested PUB provide input on the additional requests. During the May board meeting, Director Jordan presented justification for the positions and answered members' questions. Members of the PUB approved a communication to the Mayor and City Council supporting the positions but including several member concerns about positions being approved outside of the annual budget process, the need for a city-wide conversation regarding equity positions, and a request that the work related to the Portland Harbor be funded from a dedicated environmental fund within the bureau.

The final component of the annual budget process for the utility bureaus is the rate hearing and council approval of the rates and fees for the next year. The co-chairs participated in the rate hearing and reiterated to the City Council many of the affordability concerns that were included in its letter from January. The board remains concerned about the ongoing annual rates of increase for customers.

Board and bureau staff are working with the co-chairs to refine information flow and feedback mechanisms to improve the board's engagement in the FY2018-19 process.

Budget Monitoring Process

Twice a year, the city has a process for bureaus to adjust their current year budgets. Last year, this was identified as an area where there had not yet been developed a process for the board to review these requested changes. In the spring, the board held budget subcommittee meetings where members heard from the bureaus and the City Budget Office and had the opportunity to ask questions. For next year, time will be allocated during regular board meetings for all members to participate.

Policy Considerations

Outside of the formal city budget process, other items come before the City Council that affect the utility bureaus. During FY2016-17, these items include Terminal 1 North and *cryptosporidium*. For each of these issues, the board held one or more special meetings, invited bureau experts and Portland residents to provide information and input, and submitted written feedback to the City Council for consideration.

Public Engagement

To be effective advocates for the public, there needs to be open and transparent communication. The PUB has an established website

(<http://www.portlandoregon.gov/cbo/68272>) to help facilitate the sharing of information with the public and among members. All meeting notices, agendas, minutes, bureau presentations, and other meeting materials are posted on the website for public access. In addition, the PUB bylaws reflect a strong commitment to public engagement with time set aside for public comment during each meeting and before all votes. Meetings where water treatment topics were discussed had more public members providing comment than other PUB meetings.

In addition to regular board meetings, five PUB members also participated in 11 administrative review committee (ARC) hearings for the bureaus (Table 3). These hearings are bureau mechanisms for members of the public to request a review of decisions, determinations, or orders of the BES and PWB for which there is an Administrative Review provision in Code and Rule. The process ensures the public can exercise their right to be heard and receive fair treatment. Having PUB members who are not city employees participate in the process helps keep the process fair and equitable.

Challenges and Opportunities Encountered

- **Budget Review and Input.** For both bureaus, the operating budget and the five-year capital improvement plan are products of previously developed programs, plans, and studies that guide the management of bureau infrastructure. PUB has spent the year working with the bureaus as they are, or are beginning to, update their strategic planning processes to allow for PUB input earlier in the planning and design phases. The recently approved filtration treatment for the Water Bureau can serve as a model for how the PUB and the bureaus can improve public outreach and education about large scale projects.
- **Meeting Format and Reflection.** Several PUB members have requested more time to reflect on and discuss the information it receives from the bureaus. To address this issue, the members have agreed to second monthly meeting times that are reserved primarily for board discussion and deliberation time. In addition, staff have institutionalized a process for members to submit questions and the bureaus to provide answers in writing prior to the next meeting.
- **Communication with City Council.** The PUB welcomes the opportunity to work with Council to ensure proper public process and vetting occurs when utility projects or projects impacting the utilities are proposed outside normal procedures or the budget process. The Blue-Ribbon Commission recommended the formation of the PUB to proactively address such issues. With the additional requested BES positions and the *cryptosporidium* and water quality issue this year, the board saw improvement over the last year in the opportunity for

PUB input in the City's deliberation but will continue to work with the bureaus and the Council to refine that process.

Reflection on Blue Ribbon Commission Recommendations

The Portland Utility Oversight Blue-Ribbon Commission reported to City Council on November 13, 2014 their recommendations for the formation and execution of the PUB. They highlighted the following Goals and Key Considerations:

1. Build on efforts to date
2. Recognize that rates are driven by multiple factors, some outside the City's control
3. Start anew but avoid creating new bureaucracy
4. Honor the commitment and dedication of staff and volunteers
5. Address real and perceived issues of public concern and trust
6. Improve transparency, communications, and education
7. Adopt new standards of practice
8. Ensure the PUB has strong public standing and accountability
9. Provide for strong and consistent public involvement in decision-making
10. Recognize that innovation requires risk and failure which should not be a deterrent
11. Recognize the relationship of balance of authority to bond ratings

In PUB's first year, the PUB and City Council met many of the expectations outlined in the report, including:

- Streamlining three advisory groups to one, and having the PUB adequately staffed and operating year round
- Offering ample context to PUB members to ensure they understood the influences on rates
- Honoring the involvement and perspectives of staff and public through the PUB makeup and administration
- Providing the PUB with strong public standing and accountability
- Institutionalizing and expanding the City Utility Rate Review public hearing to foster dialogue
- The PWB and BES bring all projects over \$500,000 to the City Council as regular agenda items and not on as consent agenda items.

In the second year, the PUB began working with the Council and the bureaus to address a number of the more complex recommendations, such as:

- Working more closely with the bureaus to have them proactively utilize the PUB to vet their policy and budget matters, before they enter formal public process with City Council.

- Addressing real and perceived issues of public concern and trust.
- Improving transparency, communications and education.
- Working with City Council to adopt new standards of practice regarding utility oversight, and providing for strong and consistent public involvement in decision-making. Viewing the bureaus activities with an eye towards innovation.
- Thoughtful consideration of the investment requirements and policies that may be appropriate and necessary to retain high bond ratings for both bureaus.

Each of these items will require coordinated efforts of the PUB, the bureaus, and the City Council and will continue to be areas of focus for the board in the next year.

Proposed FY2017-2018 Workplan

The proposed FY2017-2018 workplan is designed to help the bureaus integrate the PUB into their work flow, especially for activities like strategic planning, capital improvement budgeting, and operational budget decisions. The board has identified equity, public and community engagement, regulatory compliance, strategic planning, green infrastructure, operational efficiencies, resiliency and emergency preparedness, and interbureau coordination as specific topics for engagement in the next fiscal year, in addition to its responsibilities as part of the budget process. Those items will be incorporated into meeting agendas over the next year (Table 4).

Table 4: FY 2017-2018 Draft Work Plan

July	January
Hydroelectric Power Contracts	Budget Update
Water Treatment	Approval of Board Letter
	Open Policy Item
	Open Policy Item
August	February
BES Strategic Plan	Budget Update
BES CIP Process Improvements	Open Policy Item - Water Strategic Plan
BES Communications Update	Open Policy Item
Hydroelectric Power	
Corrosion Control	
September	March
Fall BMP Request	CBO Budget Analysis
Water Strategic Plan	Board Conversation about Budget Requests
Crypto OHA Compliance	CIP Progress Reports
CIP Progress Reports and Previews	Participate in Budget Work session and Meetings
Annual Report and Workplan	
October	April
CBO BMP Analysis	Spring BMP Request
Board Conversation about Budget Requests	Open Policy Item
Open Policy Item - Multnomah County Drainage District	CBO Budget Analysis
Annual Report and Workplan	Board Conversation about Budget Requests
Board Procedures Update	Participate in Budget Work session and Meetings
November	May
Budget Outlook and Guidance	Rate Ordinance Preview
Big Budget Picture	Board Conversation about Rate Ordinance
CIP Line Item Reviews	Open Policy Item
Open Policy Item - Biogas	Member and Chair Recommendations
Open Policy Item – BES Strategic Plan	Participate in Rate Hearing
December	June
Operating Budgets	Begin Discussion of Annual Report
Decision Packages	Open Policy Item - Water Strategic Plan
Staffing	Open Policy Item
Board Discussion of Budget Requests	

Conclusion

The PUB appreciates the opportunity to serve the city and utility customers. We look forward to a productive year ahead and continued engagement with City Council regarding issues impacting the bureaus.

The board extends its thanks to many members of the bureau staff who prepared information and presentations for the PUB and for Commissioner Fish and his staff for his ongoing support of PUB. The board also thanks the Citizen's Utility Board and the League of Women Voters, who regularly attend and offer us perspective in our discussions. We appreciate their time and investment in the PUB. In addition, the PUB appreciates the dedication of the members of the board who completed their service this year including, Gwynn Johnson, Julia Person, Janet Hawkins, Cindy Dietz, and Marie Walkiewicz. A special note of thanks to Kendra Smith who participated in the Blue-Ribbon Commission and served as one of the first two co-chairs of the board.



Commissioner Nick Fish thanks PUB member Janet Hawkins for her service.



CITY OF PORTLAND

Portland Utility Board

Kendra Smith
Co-chair

Allan Warman
Co-chair

Alice Brawley-Chesworth

Meredith Connolly

Cindy Dietz

Janet Hawkins

Gwynn Johnson

Collen Johnson

Robert Martineau

Lee Moore

Julia Person

Marie Walkiewicz

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

From: Portland Utility Board

Subject: Disposition of Terminal 1 North by the Bureau of Environmental Services

Date: August 8, 2016

The Portland Utility Board (PUB) was established to advise City Council on matters related to the City's water, sewer, stormwater, and watershed services, on behalf of the citizens of Portland. Its creation was in part, a response to previous Council decisions where ratepayer funds were used for non-ratepayer purposes and not sufficiently vetted. The PUB can assist the Council in determining when expenditures and activities of the Bureau of Environmental Services and the Portland Water Bureau are appropriate and help restore trust with the City's ratepayers. With these two charges in mind, the PUB has reviewed the background regarding the Terminal 1 North site and the proposal before Council to repurpose the property for other City services. While the PUB acknowledges the seriousness of the housing emergency facing the City, the PUB has several concerns regarding the timing of this proposal, the process, and yet-to-be determined details of a negotiated agreement for repurpose.

Moving forward with resolution without additional analysis could impact the return on the ratepayers' investment for this asset, potentially jeopardize its sale, and negatively impact the public's trust in Portland's public utility agencies. As a large piece of industrial land on the river, Terminal 1 North holds the potential for job creation, economic growth, and increasing the tax base. Taking the site out of industrial use, even temporarily, means the potential loss of this alternative.

Timing of Proposal

Over the last two years, BES has worked through the City's established surplus property process to dispose of an asset purchased with ratepayer resources to serve a temporary – albeit long-term – ratepayer purpose during the construction of the CSO tunnels. This process will culminate with the receipt of bids from potential buyers on August 15. The disposition of the Terminal 1 North property during the current, robust industrial real estate market would provide value to BES customers. It is anticipated that the bids will not only cover the property's original purchase

price, but the subsequent costs incurred over the last several years necessary to prepare it for resale. If the City Council chooses to take action on August 10th, five days before the bid deadline for this property, it will effectively undermine the opportunity for BES to determine the fair market value of the property.

The PUB therefore ***encourages the City Council delay any action regarding Commissioner Saltzman's proposal to allow the fair market value of the property to be determined by the sale process.*** This will set a baseline for future negotiations while respecting the disposition process and prior commitments to BES customers. Failing to meet these prior commitments is detrimental to improving trust between City bureaus and the citizens of Portland. Disrupting the process at this late junction erodes the trust of the business community with regard to the disposition of property by the utilities; it could impact the value of City property by increasing perceived risks and transaction costs.

The Process and Details

BES no longer needs Terminal 1 North to service its customers, and has followed proper disposal processes according to the City's surplus property policy. Any proceeds from the immediate sale would be returned to the BES Construction Fund, to comply with bond requirements and best practices. These added construction fund resources will allow BES to delay or decrease future bond sales for construction projects and address much needed investment in aging infrastructure, helping to delay or slightly reduce rate increases.

Should the City Council take action to proceed with a proposal to lease Terminal 1 North to the Portland Housing Bureau rather than sell it through the surplus property process underway, the PUB recommends City Council address the following issues in order to protect BES customer interests:

- Most importantly, the PUB urges the Council to ensure that BES customers will be held harmless and fully compensated for the use of the property at market rates. The currently proposed floor of \$10,000 per month is well below the current market analysis.
- If the property is to be leased, articulate the terms and what benefit BES customers would receive including: the length of lease, amount, who pays upgrade costs, and liabilities (such as appropriate use of utility resources for other City bureau activities).
- Identify if there are additional insurance, bond, legal, or safety risks that require consideration, and if so, who bears those costs/risks.
- Identify impacts on other currently scheduled work, if the utilities are directed to prioritize improvements at the site.
- Articulate how existing City requirements and other obligations will be met and paid for with this proposal in both the short and long term including: industrial land use zoning conflicts, infrastructure or site improvements, consistency with the comprehensive plan, availability of industrial employment lands, loss of a water accessible terminal, and replacement of use without impacting existing natural/green waterfront in the future.
- Provide a cost-benefit analysis of the use of Terminal 1 North vs other options in the Portland Metro area to meet the immediate and long term needs identified in the proposal. Identify what would happen when the current state of emergency used to justify the proposal is lifted or extended.

The PUB would welcome the chance to review such information and offer further advice. It is critical to avoid any perceived or real conflict in the use of utility funds for City activities unrelated to provisioning of utility services.

PORTLAND UTILITY BOARD

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To: Mayor Ted Wheeler
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Chloe Eudaly
Commissioner Dan Saltzman
Auditor Mary Hull Caballero

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

Date: January 30, 2017

The Portland Utility Board (PUB) serves as a citizen-based advisory board for the Bureau of Environmental Services (BES) and the Portland Water Bureau. 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)”

Over the course of 2016, the PUB held 12 regular and 12 subcommittee meetings, and participated in four tours of utility facilities to deepen our understanding of the opportunities and challenges facing both utilities. We reviewed preliminary 2017 operating budget information and the major additions and adjustments to the five-year capital improvement plans (2017-2022) for both bureaus. We look forward to providing additional feedback to City Council upon receipt of the final budget decision packages and the City Budget Office (CBO) 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 both bureaus' directors and staff, the ex-officio members, Commissioner Fish and staff, as well as the City Budget

Office and our analyst Melissa Merrell. We are grateful for their collective efforts to help us understand and navigate the complexities of these utilities.

The PUB identified five overarching themes regarding utility management and operation for the City Council to consider, including:

- Facilitating inclusive strategic planning efforts to align and prioritize operating and capital expenditures
- Responding to increases in regulatory and community expectations
- Creating a culture of open communication and transparency
- Addressing long term affordability and equity of rates, and
- Ensuring operating and capital improvements are based on consistent, legally defensible policies

Each theme and the PUB's observations are highlighted below.

Strategic Planning

- **Bureau of Environmental Services:** Under the direction of Director Jordan, BES is conducting a holistic examination of its core functions and processes to create a roadmap for the future that encompasses a financially sound bureau with clear systems for prioritization and decision-making. The plan, as envisioned, will align budgeting decisions with program priorities and performance indicators. The PUB appreciates the work of Assistant Director Uchiyama to include us in this process and fully supports the bureau's efforts to create a plan with clear goals, objectives, and metrics that will guide future investments. The PUB supports the bureau's intention to set a course for known and stable rate increases in the range of the rate of inflation. We are optimistic that the bureau will continue to make choices that will increase its financial and system sustainability and manage the cost burden to its customers.
- **Water Bureau:** The bureau has an expired strategic plan and intends to begin a similar process to that of BES by early spring 2017. The PUB recognizes the bureau has two large infrastructure projects and regulatory concerns with lead and copper that demand significant attention in the near term, but encourages the bureau to prioritize its strategic planning, with an emphasis on addressing long-term rate stability and affordability while maintaining high quality water services. The PUB encourages the bureau to facilitate an inclusive (internal and external) and transparent process to continue to build trust with the community.

Regulatory Compliance and Community Expectations

- **Bureau of Environmental Services:** The Portland Harbor offers a moderately-high degree of uncertainty regarding potential cleanup obligation for the City. BES is the lead entity for the City on this issue, is monitoring the developments, and will work with appropriate City staff to address EPA's requirements. The PUB is confident BES is the appropriate lead entity for the City on this river-based cleanup and is confident there will be close collaboration with the Mayor's office to address city-wide issues.
- **Water Bureau:** The quality of community drinking water received significant national and local attention over the last year. As a result, there has been increased scrutiny regarding the bureau's water treatment and corrosion control. The PUB received several briefings from Director Stuhr and staff and they continue to work with the Oregon Health Authority and Environmental

Protection Agency to identify required future actions. The PUB supports and looks forward to continued open dialogue as the bureau receives the results of the corrosion control study and the evaluation of the Lead Hazard Reduction Program. We support the bureau sharing the results with the public and educating them on their responsibilities to reduce the risk of exposure within their homes.

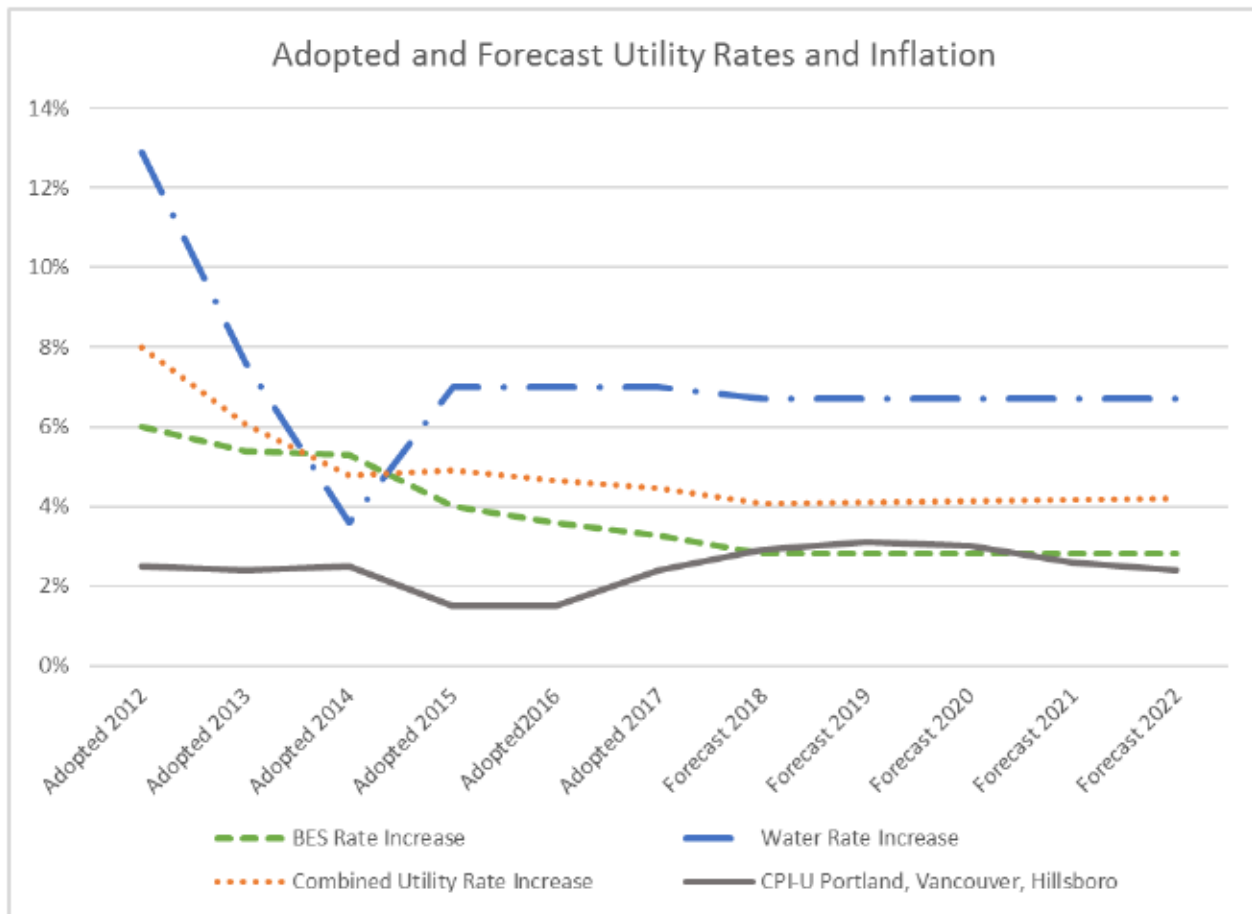
Communications and Transparency

- Bureau of Environmental Services and the Portland Water Bureau: Creating a culture of open, proactive communication, and transparency in both bureaus is ongoing work and PUB is sensitive to public perception of the bureaus. As highlighted in last year's letter we continue to support, *"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."* While project-level communications appear to run smoothly, the Auditor's 2016 Community Survey indicated that respondents who feel "Good" or "Very Good" has declined by 4 to 5 percentage points from 2012 for questions related to the Water Bureau and hovered at or below 50% for questions related to BES. A recent Water Bureau survey of customers indicates that 79% of customers rated their satisfaction as "Satisfied" or "Very Satisfied." Among customers who called the Water Bureau, 66% rated their satisfaction as "Satisfied" or "Very Satisfied." It appears there may be ongoing public concern with both utility bureaus. The PUB has concerns that neither of these tools may be adequately reaching or reflecting the voices of the most vulnerable in the city. We appreciate the Water Bureau briefing of their findings and look forward to learning more about their strategies for addressing concerns identified in that process. The PUB is willing and committed to serving as a conduit to the public, but needs that role to be reinforced through bureau actions and communications. To date, we have seen limited general public participation at PUB meetings. We will work with the bureaus in the upcoming year to identify alternative outlets of citizen engagement to help address any ongoing or emerging concerns.
- City Council: The PUB's role as a citizen oversight commission requires it to have an active role in advising the Council on decisions related to the two utility bureaus. As our August 8, 2016 memo to City Council regarding the disruption of the Council approved process to sell Terminal 1 North revealed, there is opportunity to improve communications between the Council and the PUB. We respectfully request that the Council recommit itself to protecting the interests of its utility customers and proactively engage the PUB early and often in ideas that may impact either utility's obligations or budgets.

Affordability and Equity

- The affordability of the combined water, sewer, and stormwater bill is an ongoing concern for many citizens. The combined cost of service for the City's utilities is rising faster than the rate of inflation. The combined average monthly bill for the typical single family household for FY 2016-17 for water and wastewater is \$103.63, about 2.0% of median household income for the City of Portland (and well below 4.5%, at which point the EPA considers it unaffordable). However, flat local wages for a portion of city residents and rising housing costs exert pressure on the perception of affordability. With BES's current financial position and planning efforts, it anticipates being able to maintain its rate increases near the level of inflation (under

approximately 3%) over the long term. Projections for the Water Bureau have retail rate increases at 6.7% for the next five years due to several large seismic resiliency projects and costs related to the renovation of the Portland Building. The PUB encourages the Water Bureau, through its strategic planning process, to continue to evaluate the tradeoffs and choices keeping affordability concerns a priority.



- Rates are driven both by capital investments and operating budgets associated with staffing. The PUB is closely reviewing BES's request for 18 new positions and Water's request for 5 new positions, given the long term cost of PERS assigned to each new full FTE. We appreciate the Water Bureau's detailed explanation of need presented at the December meeting, and are reviewing the written materials provided by BES. PUB anticipates having additional questions as the budget packages are completed and considered by the Council. However, the staffing numbers noted above exclude the additions made during the Budget Monitoring Process (BMP) in Fall 2016 of five (5) new staff for BES and three (3) for Water. Current budget guidance is that changes made during the BMP should be reserved for "urgent and unforeseen needs." While we appreciate the needs of each bureau to remain flexible in assessing their staffing needs due to unforeseen challenges, PUB is concerned that staff additions should undergo full evaluation of need in the context of overall programs that happens during the regular budget process.
- The PUB has a standing subcommittee discussing the Low Income Discount Program, to consider

how to offer some bill relief to lower income customers. However, that discussion has confirmed the challenges of providing bill relief to lower income customers who do not have a direct billing relationship with the Water Bureau, leading to an inequitable program in terms of both access and bill relief. A wholesale re-evaluation of how to address affordability and equitable access for those with an inability to pay for basic services is needed in the upcoming year. The PUB is committed to examining this issue further.

Budget Pressures and Policy Consistency

The recent rulings in the *Anderson v. City of Portland*, pending any appeals, relieves the pressure and work associated with defending past city actions. However, it will be important to continue to remain vigilant about spending decisions of the two bureaus. As budgets throughout the City and State remain tight, there is a tendency of other general obligation bureaus and entities to turn to the utilities to request “partnership” funding, fee-for-service, or other intergovernmental agreements. PUB sees this as one of our main purposes – to continue to examine current and new spending to make sure it is in the best interest of the ratepayers. We look forward to continuing to work with Council and staff to provide the needed outside perspective for budgeting decisions early in decision processes.

In addition to being vigilant about proper spending of rate funds, the costs and benefits to the broader public regarding upgrades to private property may need closer examination and scrutiny by the PUB and Council to provide policy clarity and consistency. As part of the strategic planning and assessments in both bureaus, the PUB encourages them to critically evaluate their assumptions regarding levels of service to determine if they are still appropriate in light of climate change, citizen expectations, risk management, and limited budgets.

Budget To Date Highlights

The PUB and its budget subcommittee reviewed the preliminary decision packages and projected rate impacts, but is reserving detailed comment until the packages are complete and the CBO has completed its analysis. In general, however, we would like to highlight a few elements for the Council.

- **Bureau of Environmental Services:** As part of the strategic planning process, the bureau is working to identify an optimal plan for investing in its systems and infrastructure. This will require a bold look at the existing business practices of the bureau’s capital work. The current bureau assessment is that they need to more than double the amount of capital work that is completed each year to address aging infrastructure and amount of inventory ranked as “very poor/critical.” This increased investment in capital and systems will require significant financial resources and strategic shifts in staffing. The current financing model relies heavily on debt financing most capital work in the near term but has assumed a shift to mostly cash financing in the out years. To pay for the proposed large increase in capital work, the bureau now recommends a financing model with closer to half of the CIP financed with debt and half with cash. As most of the capital assets of the bureau have extended useful lives, debt financing ensures an equitable share of the cost burden between today’s residents and future residents who will benefit from the investment. The shift will also allow the bureau to make the necessary investments without placing all of the cost on current residents through large rate increases.

BES highlighted significant needs at both of its wastewater treatment facilities in the next five years to meet permit obligations and address operational efficiencies. They are also completing

extensive analysis in storm water systems planning, in an effort to prioritize expansion of the stormwater system and repair and replacement of aging infrastructure to meet future drainage needs in the City.

BES is also continuing its evaluation of the biogas project. Last year PUB joined the CUB in raising concerns about the proposed biogas and food waste project at Columbia Boulevard Wastewater Treatment Plant. PUB and CUB staff have been engaged with bureau staff throughout the year as analysis and planning for these projects has progressed. The PUB acknowledges that a successful project would be financially beneficial to the bureau, but there are also risks and costs associated with the project and its base assumptions, and PUB again encourages the bureau to carefully evaluate the tradeoff of investing in this project at the expenses of others more closely aligned to the core mission of the bureau.

- **Water Bureau:** The bureau is proceeding with two large capital improvement projects - Washington Park to upgrade its reservoir and a new Willamette River Crossing. Both projects are designed to reduce the potential disruption to water supply to the west side of Portland in the event of a large earthquake. The scope and cost of the Washington Park project has grown and the PUB encourages the Council to assist us in monitoring the projects' progress and budgets closely.

The Council committed in 2015 to completing multi-year preservation work of the former reservoirs at Mt. Tabor. The PUB was encouraged by the Council's decision last year to use General Fund resources to fulfill this obligation. The PUB does not support using ratepayer funds to pay for historic preservation activities at Mt. Tabor and expects the Council will continue to meet this obligation with General Fund resources.

Conclusion

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. Thank you, and all the cooperating City staff, for your time and consideration. We look forward to continuing the discussions.

PORTLAND UTILITY BOARD

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Cindy Dietz

Janet Hawkins

Colleen Johnson

Ted Labbe

Robert Martineau

Micah Meskel

Lee Moore

Julia Person

Scott Robinson

Marie Walkiewicz

Mike Weedall

To: Mayor Ted Wheeler
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Chloe Eudaly
Commissioner Dan Saltzman
Auditor Mary Hull Caballero

Subject: Requested Additional Positions for the Bureau of
Environmental Services

Date: May 8, 2017

The Portland Utility Board (PUB) serves as a citizen-based advisory board for the Bureau of Environmental Services (BES) and the Portland Water Bureau. At the request of Mayor Wheeler, the PUB has reviewed the two additional staff requested by BES as part of the FY 2017-18 budget process. At the May 2, 2017 PUB meeting, Director Jordan presented the need for a Senior Management Analyst to support the bureau's Equity Plan and community engagement related to the Portland Harbor Superfund work and a Principal Management Analyst to support the bureau's change management and strategic planning work.

The PUB supports these positions be added to the FY 2017-18 budget at this time. PUB members had a lengthy and deliberative discussion with the director regarding these positions. While the board as a whole voted to support this request, individual members had several concerns, including:

- **Process Concerns.** While members appreciate the director's candor that the need for these staff resources became apparent after the submission of the bureau's budget request in January, requesting the positions this late in the process doesn't allow for consideration of these needs in context of the larger bureau resource priorities nor does it allow for the same level of analytical scrutiny as those submitted in January. In addition, some members expressed an expectation that staffing requests in future budgets will be coupled with clear work plans.
- **Citywide Coordination of Equity Resources.** Members encourage the Mayor and City Council to continue a citywide conversation about how the City is managing human resources invested in equity work across the city. The bureau has worked with existing staff resources to date for its equity activities, with technical assistance from the Office of Equity and

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Human Rights. The addition of a staff person partially dedicated to this work demonstrates the bureau's commitment to equity but should be incorporated into a citywide strategy.

- **Funding Mechanism.** The Mayor's Proposed Budget includes the bureau's request of an increase of \$1.25 million in the Environmental Remediation Fund for work related to Portland Harbor Superfund Site. During the PUB meeting, Director Jordan suggested, and some members agreed, that the portion of the position that would be dedicated to the harbor should be funded from that appropriation.

Thank you for considering this feedback and we look forward to working with you during the rest of the budget process.

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Agenda No.
REPORT
Title

Accept Portland Utility Board Annual Report to City Council (Report)

<p>INTRODUCED BY Commissioner/Auditor: Commissioner Nick Fish</p>	<p style="text-align: right; color: blue;">NOV 20 2017</p> <p>CLERK USE: DATE FILED _____</p>
<p>COMMISSIONER APPROVAL</p> <p>Mayor—Finance & Administration - Wheeler</p> <p>Position 1/Utilities - Fritz</p> <p>Position 2/Works - Fish <i>NF</i></p> <p>Position 3/Affairs - Saltzman</p> <p>Position 4/Safety - Eudaly</p>	<p style="text-align: center;">Mary Hull Caballero Auditor of the City of Portland</p> <p>By: <u><i>[Signature]</i></u> Deputy</p> <p>ACTION TAKEN:</p> <p>NOV 29 2017 <i>Rescheduled to DEC 06 2017 11:15 am</i> <i>Time Certain</i></p> <p>DEC 06 2017 <i>Rescheduled to DEC 13 2017 11:00 am</i> <i>Time Certain</i></p> <p>DEC 13 2017 ACCEPTED</p>
<p>BUREAU APPROVAL</p> <p>Bureau: Office of Commissioner Fish Bureau Head: Sonia Schmanski</p>	
<p>Prepared by: Todd Lofgren Date Prepared: November 7, 2017</p>	
<p>Impact Statement</p> <p>Completed <input checked="" type="checkbox"/> Amends Budget <input type="checkbox"/></p>	
<p>City Auditor Office Approval: required for Code Ordinances</p>	
<p>City Attorney Approval: required for contract, code, easement, franchise, charter, Comp Plan</p>	
<p>Council Meeting Date November 29, 2017</p>	

<p style="text-align: center;">AGENDA</p> <p>TIME CERTAIN <input type="checkbox"/></p> <p>Start time: _____</p> <p>Total amount of time needed: _____ (for presentation, testimony and discussion)</p> <p>CONSENT <input type="checkbox"/></p> <p>REGULAR <input checked="" type="checkbox"/></p> <p>Total amount of time needed: 10 Minutes (for presentation, testimony and discussion)</p>	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <th style="width:30%;">FOUR-FIFTHS AGENDA</th> <th colspan="2">COMMISSIONERS VOTED AS FOLLOWS:</th> </tr> <tr> <th></th> <th>YEAS</th> <th>NAYS</th> </tr> <tr> <td>1. Fritz</td> <td style="text-align: center;">✓</td> <td></td> </tr> <tr> <td>2. Fish</td> <td style="text-align: center;">✓</td> <td></td> </tr> <tr> <td>3. Saltzman</td> <td style="text-align: center;">_____</td> <td></td> </tr> <tr> <td>4. Eudaly</td> <td style="text-align: center;">✓</td> <td></td> </tr> <tr> <td>Wheeler</td> <td style="text-align: center;">✓</td> <td></td> </tr> </table>	FOUR-FIFTHS AGENDA	COMMISSIONERS VOTED AS FOLLOWS:			YEAS	NAYS	1. Fritz	✓		2. Fish	✓		3. Saltzman	_____		4. Eudaly	✓		Wheeler	✓	
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