



Oregon Citizens' Utility Board

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May 17, 2018

To: Mayor Ted Wheeler
Commissioners Chloe Eudaly, Nick Fish, Amanda Fritz, and Dan Saltzman
Jonas Biery and Michael Jordan, Bureau of Environmental Services (BES)
Cc: Portland Utility Board (PUB)
From: Janice Thompson, Oregon Citizens' Utility Board (CUB)
Re: BES FYI 2018-29 budget and future considerations

Comments on BES FY 2018-19 Budget

Rate Increase and Budget Guidance

Commissioner-in-charge Fish's budget guidance letter requested a combined Portland Water Bureau (PWB) and BES rate increase below 5 percent. The BES rate increase is 2.35 percent and the PWB increase is 8.7 percent for a combined increase for a typical family is 4.46 percent for water, stormwater management, and sewer services. It is appropriate that this budget guidance goal was met, but CUB is concerned about two elements of the Mayor's budget:

- The \$401,669 increase in the BES payment to PBOT for street sweeping via a troubling process without timely or adequately robust conversations between these two Bureaus
- Use of rate stabilization funds to shift from a 3 percent to a 2.35 percent rate increase with minimal benefit compared to financial modeling work required by BES

Street Sweeping

On May 10, CUB submitted a memo to the City Council opposing the \$401,669 increase in the BES payment to PBOT for street sweeping to the City Council. This memo has been viewed by some as CUB being opposed to any BES payment for street sweeping, but the reality is that CUB believes BES payments should focus on street sweeping that assists with MS4 permit compliance and makes a contribution to addressing significant stormwater management needs. The \$401,669 increase in the BES payment was developed by PBOT on the basis of finding a 5 percent general fund reduction and received CBO input that was less than helpful to either PBOT or BES. We were also dismayed by the lack of timely and robust discussion between PBOT and BES, including no PBOT documentation of their arterial street sweeping costs. Our May 10th memo, however, did include steps for future solutions, including the possibility of a budget note.

CUB supports the budget note introduced by Commissioner Fish to ensure a significantly improved BES/PBOT process in the next year that requires better documentation of costs and discussion of what constitutes – and doesn't constitute – effective street sweeping that provides significant system benefits. CUB thanks the City Council for adopting this budget note.

Analysis of Drop from 3 percent to 2.35 Percent Rate Increase

In the BES requested budget, the projected rate increase for a typical household was 3 percent for the next five years and beyond for the foreseeable future. Reducing this 3 percent rate increase to a

2.35 increase for FY 2018-19 was primarily achieved by increasing future rate increase projections from 3 percent to 3.1 percent starting in FY 2022-23 and beyond. In other words, costs are nudged slightly higher in the future to gain a short-term rate reduction in the next fiscal year.

Assessing the wisdom of this FY 2018-19 shift from 3 percent rate increase to 2.35 percent is linked to reviewing PWB's projected rate increase percentages. While the PWB increase for FY 2018-19 is 8.7 percent, their projected rate increase percent for the next four fiscal years levels off to 7.4 percent.

It appears then, that BES is being asked to reduce their FY 2018-19 rate increase, through use of the Bureau's rate stabilization fund, with a resulting lower combined rate increase for the next fiscal year when there is a one-year spike in PWB's rate increase to 8.7%. Interest in this BES adjustment is understandable, but CUB is concerned about short term use of the BES rate stabilization fund and replacement of the Bureau's financial planning expertise with relatively hurried decisions by elected officials.

This concern about elected officials may seem misplaced, but the Portland Utility Reform Blue Ribbon Commission definitely discussed the need for oversight entities to be alert to politically influenced rate increases that are inappropriately low. Indeed, infrastructure maintenance problems at many public utilities across the United States have frequently been linked to political resistance by elected officials to adequately fund infrastructure improvements.

The chart below compares the Mayor's budget and a budget with the original 3 percent rate increase projections by BES.

COMPARISON OF MAYOR'S BUDGET AND ORIGINAL BES RATE INCREASES							
Mayor's Budget							
	Adopted 2017-18	FY 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22	Forecast 2022-23	ongoing
BES rate of increase %	2.95%	2.35%	3.0%	3.0%	3.0%	3.1%	3.1%
PWB rate of increase	6.7%	8.7%	7.4%	7.4%	7.4%	7.4%	
Combined Typical Residential Bill: rate of increase		4.46%	4.53%	4.58%	4.61%	4.72%	
Combined Typical Residential Bill: monthly difference from previous year	\$4.82	\$5.11	\$5.40	\$5.68	\$6.09		
Original BES Projections – Retaining Its 3% Ongoing Rate Increase							
	Adopted 2017-18	FY 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22	Forecast 2022-23	ongoing
BES rate of increase %	2.95%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
PWB rate of increase	6.7%	8.7%	7.4%	7.4%	7.4%	7.4%	
Combined Typical Residential Bill: rate of increase		4.9%	4.52%	4.58%	4.60%	4.66%	
Combined Typical Residential Bill: monthly difference from previous year	\$5.29	\$5.12	\$5.42	\$5.7	\$6.03		

Troubling Use of Rate Stabilization Fund (RSF)

In our "phase 2" memo and testimony at the March 29th Council work session, CUB urged caution about CBO's recommendation that BES "consider lowering rate increases, at least in the short term, and look for ways to use the RSF to reduce future rates increases." CUB's view is that this is what

BES is already doing and that the Bureau's long term thinking about future rate increases is illustrated by the 3 percent rate increases project for the foreseeable future. In addition, we highlighted the troubling potential for inappropriate short-term nudging of RSF management by elected leaders.

At the March 29th Council work session, CBO staff was asked whether or not BES had adequately considered their recommendation and it seemed the answer was concurrence with the Bureau's original game plan. Unfortunately, in CUB's view, the Mayor's budget requires just the type of short-term use of the RSF that CUB cautioned against at the March 29th Council work session.

CUB recommends against future short-term tinkering by the City Council with RSF management for two reasons. One is that this replaces the financial planning expertise of BES staff with the more short-term thinking that is all too commonly a hallmark of elected officials. This dynamic isn't overly problematic in the Mayor's budget, but this move in the FY 2018-19 shouldn't be a trigger for continued use of this tactic. Two is that the gains, as illustrated in the chart above are actually relatively minor and raise the question of whether or not it was worth spending the extra BES staff time needed to rework financial models.

Staffing Additions in FY 2018-19

In its budget submittal, BES requested 22 positions and CUB agreed with CBO's support for only 19 positions. The Mayor's budget added 18 positions, which is not an unreasonable change. It should be noted, however, that the unfunded position would have focused on data management and analysis in the Environmental Investigations Division. This request was consistent with the Bureau's recent emphasis on data collection and management and it seems likely that this position request may return in the next budget.

FY 2018-19 and Beyond for BES

Staffing Additions Beyond FY 2018-19

CUB is concerned that the BES projections include approximately 20 FTE additions in each of the remaining four years of its five year financial plan. We know that BES carefully reviews its staffing needs and that projections made for financial purposes do not automatically translate into FTE requests. However, since many staffing expectations are CIP related, we hope that the CIP-PREP will result in efficiencies that lower future staffing needs. At the same time we recognize that new staffing needs may surface. In general, CUB appreciates continued briefings on the Bureau's CIP-PREP efforts with a particular focus on how it is informing staffing levels.

Risks to Financial Forecasting

The BES FY 2019-23 Financial Plan highlights four anticipated challenges over the next five years:

- major sewage treatment plant improvements,
- continued reductions in State and Federal funding,
- Portland Harbor Superfund Site related costs,
- increased operations and maintenance (O & M) funding needs related to green infrastructure assets.

CUB is monitoring all of these issues and appreciates briefings and other assistance provided by BES staff regarding these risk factors.

CUB suggests the possibility that capital projects related to seismic resiliency improvements may well be a future risk in financial forecasting. We will continue monitoring BES efforts on seismic resiliency planning.

Green Infrastructure O & M Costs and Stormwater System Planning

As noted above, increasing green infrastructure O & M costs is identified as a financial forecasting risk. This is not just a Portland issue since all across the country green infrastructure has been found to be an effective stormwater management tool that can reduce the scope and cost of grey infrastructure like sewer pipes.

What CUB wants to highlight is that the accurate projection of green infrastructure O & M costs are informed by Stormwater System Planning (SWSP). This is just one reason that CUB supports the level of attention and resources that BES devotes to SWSP. Discussions over the next year or two on retention and/or reforms to the Clean River Systems rebate program will also be enhanced by SWSP and improvements in determining green infrastructure O & M costs.

Rate Methodology and Cost Allocation Updates

In January 2016, CUB first identified the need to consider the strategic timing to update or replace three important cost allocation and rate methodology studies. The Capitol Cost Allocation Study was done in 1999, the Stormwater Cost Allocation Study was done in 2000, and the Sewer and Stormwater Rate Methodology was done in 2005.

Our past comments on the timing of updating these studies, however, highlighted the importance of the Stormwater System Plan (SWSP) in providing critical information for new studies. CUB appreciates the periodic briefings on the SWSP efforts and continued conversations with BES business services staff about the optimal timing for updating the cost allocation and rate methodology studies. CUB has agreed with the determination thus far that these updates were not yet timely.

However, barring compelling new information from BES, CUB recommends including resources to begin this updating process in the FY 2019-20 budget. Updating these studies will be a multi-year task, but SWSP efforts have advanced enough that it will provide helpful input into the development of the stormwater elements of new cost allocation and rate methodology reports. These study updates will also add to the needed discussion, also noted above, about retaining and/or reforming the Clean River Rewards program.

Portland Interests versus Lake Oswego Interests in Tryon Creek Plant Design

The Tryon Creek Wastewater Treatment Plant is owned and operated by BES but serves customers in Portland and Lake Oswego with financial support from both cities. BES is currently in the design process to improve plant reliability. Discussions about major plant improvements have recently included a presentation about a new design that has a smaller footprint that could provide previously unanticipated development opportunities in Lake Oswego. The finances and rate impacts of this possible new design approach have yet been determined. However, CUB identifies the need for BES and the City Council to carefully monitor these alternate design discussions to ensure that the interests of Portland and its sewer service customers are not inappropriately affected by interests in Lake Oswego. CUB will continue our monitoring and appreciates ongoing assistance from BES staff.