

Portland Water Bureau Budget Advisory Committee 2014-2015

Recommendations and perspective of a community member

Written by: Kellie Barnes

February 20, 2014

Dear Mayor and City Commissioners,

I have had the recent privilege of participating on the Portland Water Bureau (PWB) budget advisory committee (BAC), as a community member, for the 2014-2015 proposed budget. The information below includes a summary of my perception of the process, as well as recommendations based upon this experience. These are my personal views, and not the views shared by the BAC group overall, Clean Water Portland (of which I am a member), or Clean Water Oregon.

To begin, I have found the overall experience positive. I have found the participating employees from the Portland Water Bureau experienced, well informed, and transparent. After our regular meetings, I would often have questions or inquire about something in more detail, and I found the employees of the bureau willing to share information so that I may be more informed. This included access to documents not shared at the meetings, and arranged times to speak directly to the engineering team or to review additional material detail.

I appreciate the City's desire to include citizen input in the proposed budget process, and governance of the City. Admittedly it is not an easy task. The balance of providing specific and detailed enough information to allow a meaningful and informed threshold of citizen knowledge, versus the balance of time and expense spent from staff is not easily decided upon. In addition, as community members, our oversight and comments are essentially offered without the technical experience of working within the bureau. There is limitation to such a process, and yet I also believe it is a process that holds merit and value. Including citizens in the City process of governance in a meaningful way allows us as citizens to be better informed and engaged, it also allows for continued transparency in the governance of the City.

In addition to the information presented to the BAC committee through regular meetings I have reviewed documents, and in some cases spoken to individuals in related capacities to the City, to deepen my understanding of the water bureau budget process. Some of the documents I reviewed have been included in the Appendix for your reference.

While I do support acceptance of the Portland Water Bureau's currently proposed budget for the 2014-2015 fiscal year, I would like to offer a few considerations for the Council.

1. I recommend that community member participation on the BAC be limited to 3 -5 years.
2. I recommend that an advisory committee be established for the PWB that extends beyond the budget advisory capacity.

3. I recommend consideration of an overarching strategy for Asset Management within the bureau. Stated otherwise, I would recommend consideration of an additional layer of decision-making, regarding prioritization of asset management.
4. I recommend that there be a heightened review of future debt service.
5. Finally, I recommend that PWB and the City Council consider education of citizens a priority.

BAC member participation term limits:

While this would entail bringing new members up to speed on the budget process for the bureau, my personal experience has demonstrated there is value in the most basic of questions. This suggestion is not to minimize the value and contribution of more long standing BAC members, but to consider a balance between such experience and a fresh look at the budget process.

Advisory committee for the PWB that extends beyond the budget advisory capacity:

The PWB manages one of the larger budgets of the City Bureaus. Many decisions concerning capital projects, Federal and State compliance, future debt service, selling of property, and asset management/infrastructure decisions overlap from those of budget considerations to those of policy. For continued transparency and for enhanced community involvement, such an advisory committee may benefit both the City Council and citizens of Portland.

With the recent passing of the resolution to bring the Citizens Utility Board (CUB) into an advisory role with the council concerning residential rates for both the Bureau of Environmental Services (BES) and PWB, some may not see such an advisory committee as necessary. However, many of the other bureaus have such advisory committees that extend beyond the budget process. Given the many facets of the bureau, such citizen participation would likely enhance the trust and continued transparency between the bureau and citizens.

And while I do support the passing of the CUB resolution as a possible way to improve ratepayer representation, many citizens are questioning the timing of such a resolution. Admittedly this resolution came as a surprise. However, CUB representatives have informed me they made such a recommendation to the council due to timing and the current discussion of water and sewer rates in the media. While citizens may question the motivations of the timing of such oversight, it seems apparent that having an additional layer of oversight, with technical experience, will be supportive to residential ratepayers.

However, even with the CUB, it is important for citizens to remain involved in the process, and to be engaged with the CUB. The process of recommending rates for PWB is complex, and many variables play a role outside of the daily operation of PWB. These include political will to increase rates adequately and public education as to the potential value of services provided. As an aside, one complexity in regards to CUB involvement may be that of the continuing role of the Portland Utility Review Board (PURB), which has also served in an advisory capacity to the City.

Overarching strategy for Asset Management within the bureau:

In performing a review of the Asset Management Reports provided by PWB, it appears that the bureau does an excellent job documenting inventory and valuation of assets, as well as documentation of asset conditions. In addition, each report documents repair and replacement strategies. The bureau is considered to be ahead of the industry in regards to best practices of asset management. In fact, PWB has been invited to participate at the federal level offering guidance to Asset Management processes due to their high standard of practice. Per request, I was granted the ability to view asset management reports for the bureau consisting of: Distribution and Distribution Transport, Conduits, Storage Tanks, Pump Stations, and Facilities. Each report demonstrated an asset profile, relationship to levels of service, inventory and valuation of assets, asset condition and utilization, failure models and asset life, business risk exposure, and maintenance repair and replacement strategies.

However, one aspect that I felt was not clearly documented in these reports is that of an overarching prioritization or asset management plan. Perhaps this is internally understood within the department, but from reading the reports such a prioritization or ranking of assets between the budget programs was not clear. For example, would one prioritize replacement of distribution pipes, or outdated components of a pump station? Each report in isolation demonstrated the valuation, condition assessment, and strategies for repair or replacement, but overall I did not observe a collaborative long-term plan, prioritization, or ranking system.

One would anticipate, with compliance costs reduced in future years, such as the Federal Long Term 2 Enhanced Surface Water Treatment Rule (LT2 compliance), and the completion of Dam 2 Tower, that there would be available funding to consider prioritization of repair or replacement of assets. Such budgeting and implementation of a ranking or prioritization system would likely assist the council in the allocation of funding, and the bureau in maintaining continued alignment to core services for future generations.

An overarching ranking or prioritization system could also assist the Council to make informed decisions regarding upcoming capital improvement projects. For example, when reviewing presentations to the council for projects such as the Dam 2 Tower, or Willamette River Crossing (WRC), these projects have often been presented in isolation from other capital projects. Each presentation demonstrates the appropriate components to inform council, but in isolation one might perceive

the overall impact or cost of the project in a unique manner. It is worth noting that this fall, PWB did provide a presentation to council of their proposed CIP for the 2014-2015 fiscal budget. This presentation is available on the bureau's website. Such a presentation allows interpretation of overall capital spending in relation to the entire budget.

One potential valuable contribution CUB may have to that of the utility budget process is that of the review of capital spending. For example, while I do support the concept of being prepared for future risk of seismic events; what is not clear to me in regards to the WRC project is what additional options were considered. I did view the presentation presented to council by Michael Stuhr, Chief Engineer. I have found Mike to be knowledgeable and competent. He and others from the engineering team have presented information to our committee, that has allowed us as members, to be more informed on technical aspects that assist our decision making as well as to details of the proposed CIP.

However, one aspect of our education that is not included in detail as BAC members is that of how a project advances or develops. We do have a schematic description of such a process generally, but obviously that is without the details to completely understand the decision making process. I bring this up to demonstrate we as community members are not necessarily informed on the details of how a project is chosen over another project. We also do not have the technical experience to fully evaluate the capital spending projects.

This was highlighted one evening as my family discussed the cost of the WRC at our dinner table. My family was discussing the possibility of other options, such as consideration of pipes on bridges or even a "straw like" tube that could cross the river, if there was a seismic event that caused damage to the existing pipes under the Willamette River. I recognize these concepts are overly simplified, and I did read in interest Michael's presentation, as well as the State ODOT report, which indicates why the bridges may not be a preferred location for water pipes. However, this example illustrates that as a community member, it is a difficult to ascertain the decision making process that has occurred in regards to ranking of capital projects and other options that may have been considered during the planning phase of a project. I am aware that risk assessments, failure models, and business risk exposures are performed. The BAC members are simply not brought into the process early enough, or informed in enough detail, to know if these models are created for various concepts, evaluated between each other, and compared. It is also not always clear how societal consequence is part of this process or decision-making. This may be one relevant example of how an advisory water committee may be of value to the bureau, as well as CUB oversight.

It may be worth noting, that much of the planning and study phase of projects are now performed internally within the bureau. While I personally would have interest in understanding in more detail some of these discussions, I also believe at some point in time, there is value in trusting the decision making process of the staff. I have found no reason, with the lens of this fiscal budget, to question the

integrity or projects chosen from the bureau staff. A recommendation I might suggest as valuable for citizen education and continued transparency, would be to openly discuss the alternatives to the WRC project, as well as the risk assessments and failure models performed. In this manner citizens might more completely understand the benefit versus cost of the project.

Heightened review of future debt service within the bureau:

When considering the future annual debt service of water bonds one can see there is more than a 2-fold increase from 2013 to 2023. A large percentage of this debt service is due to compliance cost. Due to the fact that water bonds hold a AAA rating, one could also consider the use of debt as a strategy of prudent planning while rates have been low, as well as a strategy of fiscal sustainability. Such fiscal sustainability allow costs of a capital project to be spread throughout the future generations that benefit from the project.

In addition to the future debt service, another fluctuating variable is that of the Water Rate Stabilization Account balance. Per my understanding, this account is used to assist in stabilizing water rates when costs increase or when revenue is reduced. When reviewing this account balance, one can see that between 2013-2018 this account will be reduced from approximately 22 million dollars to approximately 7 million dollars. It is also my understanding that the Rate Stabilization Account is used in a cyclical manner, and as major capital expenditures are forecasted in the future the goal is for the account to be replenished so it can be used again in the future.

It is my belief, that the financial team manages the debt of the bureau prudently and conservatively, but I do observe with concern the trends of the increasing debt service and the reduced water rate stabilization account balance. It is my hope that these trends do not further increase, and that future debt service is reduced as compliance costs reduce. In addition, I support replenishing the Rate Stabilization Account for future need.

When one looks with a holistic lens at the entire City budget and considers that city expenses exceed revenues there may be an additional benefit of continued ranking of core services and prioritizations for each bureau, to assist the City Council as it prioritizes funding for core services. Mayor Hale's reduction of expenses for each Bureau's budget, adopted in the 2013-2104 fiscal budget, while challenging, was a beginning step in balancing the City's expenditures and revenue.

It may be worth mentioning that the Water Bureau was also held to this reduction of budget, even as its operating costs are funded by water rates and not the general fund. During last fiscal year, the initial proposed budget water rate increase from the bureau was 14.8 %; final accepted budget water rate increase for the 2013-2014 fiscal year was 3.6 %. The total operating budget reduction was \$10, 724,269 which included the elimination of 39.5 FTE positions.

For the 2014-2015 proposed budget the water rate increase currently proposed is 7%. This is reduced from the original projection of 14.1%. The bureau was given a 2.5% operating budget cut guideline by Commissioner Fish. 11 FTE positions were eliminated, and there was a reduction to the operating budget by 1.4 million dollars. The capital budget reduction was 14.1 million dollars.

In addition to the improved efficiency of the existing services provided, and a re-prioritization of efforts to core services, there may be a benefit to considering future rate increases for increased support of core services, and additional asset management efforts.

While such a consideration of rate increase is not popular, citizens may support such increases when used for core services. I believe rate increases should not be considered for non-core services, nor should they be considered without input from the citizens of Portland. For example, citizen input may be of value for the current discussion of the status of the Portland Building, selling of surplus property, or other related issues throughout the bureau.

Transparency, outreach and education of citizens:

(Water Rates, Core Services, Compliance, and Privatization/ Regionalization/ Non-Emergency Comingling)

Water Rates:

Many citizens are not aware that their water rates are distinct and different from those of stormwater and sewer rates. They experience getting one very large “water bill” at what feels like irregular intervals, and with not insignificant impact on their finances. The bureau has started the work of making the billing statements more transparent and easier to understand. However, I believe that there remains a gap between citizens’ knowledge and what the true cost is of our pristine water source.

For instance, the current proposed 2014-2015 water rate increase of 7%, translates to an increase cost per month of approximately \$1.93 for a typical residential water user.

It would be helpful for citizens if the media, and our elected were to communicate about the budget process in actual numbers, and real impact and not always in percentages or conglomerate services. In this way citizens can understand more fully and holistically what the rate increases mean in regards to expense and value to them.

Recent campaign platforms have included promises for no increase in water rates. While such promises may be helpful when running for office, it does not allow for full and open discourse of how bureaus are distinct and how rates differ for the unique services of water, stormwater, and sewer. It does not take into account that costs of water service in an aging system will simply increase over time, and that the water has a true value to the citizenry. It also does not provide the transparency that

is needed to maintain support for continued quality water service for our future selves.

This same sort of political theater can sometimes be seen as cases are presented to the City Council. For example while I support the concept of CUB acting as a independent watch dog for residential rate payers, I was dismayed to see a CUB staff member wave and discuss his “water bill” at the council meeting. As he discussed his concern with residential water rates, he did not state that his bill was composed of water rates, stormwater rates, and sewer rates.

We can all agree that we would like to have continued cost transparency and advocates for appropriate utility rates. Yet it is equally important that we as citizens engage in this discussion, and that our policy makers assist citizens and the media in how we communicate about rates. Admittedly, I did not fully understand this distinction myself until participating on the PWB BAC.

Core Services:

Often we hear about the past fiscal misuse of water rate funds. Projects that were not aligned with the core services of the bureau such as the Water House, Rose Festival Headquarters, and the Portland Loos have left a distinct mark on the bureau. Citizens have a right to hold concern around this past misuse of ratepayer funds, and to ask for more transparency as well as true alignment to core service projects.

Compliance:

Citizens may also not be aware that PWB is not funded through the general fund, but instead through water rates. A large percentage of the 2013-2014 adopted Water Bureau budget, as well as the current proposed 2014-2015 fiscal year budget for PWB is due to the cost to maintain or complete compliance work such as (the LT2 rule). Major projects that support this effort include Powell Butte, Kelly Butte Reservoirs, disconnection work at Mount Tabor, and adjustments at Washington Park.

It is perhaps worth noting that without compliance, PWB bond ratings could potentially change. AAA rating allows money to be borrowed at a reduced interest rate.

In addition, many citizens may not recognize that compliance extends beyond LT2, to requirements of the Federal Clean Water and Endangered Species Acts. These projects include Dam 2 Tower and Alder Creek Fishing. While many citizens may view these projects as costly, they allow PWB to be compliant within the expectations of the Federal Clean Water and Endangered Species Act. One additional potential benefit to Dam 2 Tower is that of controlling water temperature downstream. While operations and control may take years to refine, such a model to withdraw water from multiple levels may allow for future coliform risk mitigation during the warmer months of the year. This may allow mitigation of water quality

issues caused by warm seasonal changes and stagnation in the distribution system. Admittedly such data and potential success remains unknown, as Dam 2 Tower is not yet on line. While I was not on the PWB BAC when this project was in the initial research and design phases, and while this potential benefit of Dam 2 Tower was not the primary intent of the capital project, I would hope it might serve as a possible option to mitigate water quality issues due to warm seasonal changes and stagnation, rather than increasing the amount of disinfectants as a first line of defense.

Another area of compliance that is complex is that of the LT2 ruling. While PWB acts on behalf of City governance many citizens may not be aware of what steps have been taken to avoid disconnection of Portland's open reservoirs. Some citizens would like to see more direct communication from the City with the State, or the Governor directly, in order to secure a deferral. While many elected officials have discussed that the EPA will likely not reverse the LT2 ruling; the State through OHA has been granted the authority to offer a deferral.

The City is on record stating that everything has been done that could be to secure a deferral from the State. While this may be true, at least publically, there does not appear to have been a great deal of effort to secure a state delegation for such a deferral. Perhaps behind closed doors, the willingness of State elected officials was not present for such an effort, but there has not been a great deal of public education around this complex topic. The citizens of Portland could benefit from continued transparency and education around the LT2 variance, and what steps have been taken. A website post, in my opinion, is not sufficient for education around these complex issues.

Privatization, Regionalization, Comingling:

Many citizens also have voiced concerns around issues such as privatization, regionalization, and non-emergency comingling of water sources (not including use of Columbia Water Wells due to turbidity or reduced water levels of Bull Run).

Bull Run Watershed provides some of most pristine and clean water in our nation. It has done so for many generations, and it can continue to do so for many future generations. Sharing common goals of protection and stewardship of the watershed for the citizens of Portland seems like a goal and common cause we can all agree to. I would like to see our City and State elected officials continue outreach, education, and transparency around these common shared goals; including discussion around avoiding present and future risk of privatization, regionalization, and non-emergency comingling of sources. And while, some elected officials may believe that such a risk does not exist; surely educating our citizens, having open discussions, and providing appropriate layers of protection from these situations occurring, seem like common goals we can all agree to in order to protect our water and the Bull Run Watershed for future generations.

In summary, while I can only speak objectively as a community member for the proposed 2014-2015 PWB budget; historically one can appreciate the need for more transparency and education around these and additional issues.

It is my belief that our elected and soon to be elected, hold responsibility to provide outreach and community education around these topics. In order for our citizens to be engaged, it is important that we have access to an education that extends beyond the media and their focus on conflict and hyperbole.

As more citizens become educated around the core services of the bureau, and as there is enhanced and continued transparency to the public, it is my belief that more citizens will be pleased with the current operations and management of the bureau.

I have appreciated the time spent participating as a community member on the PWB BAC. While surely such a process is narrow in scope, it has allowed me to be more educated around the operations, fiscal planning, and management of the Water Bureau and the City as a whole. I have appreciated the transparency and participation of the bureau staff. It has been an honor to serve in this capacity, and it is my hope that my participation has in some manner benefited the Bureau, the City, and the citizens of Portland.

Sincerely,

Kellie Barnes

Appendix

City of Portland Adopted Budget 2014-2015 Report.
<http://www.portlandonline.com/index.cfm?c=62877>

PWB BAC Meetings: 2014-2015 Proposed Budget Process.

Annual Debt Report. Fiscal Report 2012-2013. Office of Management and Finance <http://www.portlandoregon.gov/bfs/article/468272>.

Office of the City Auditor, Fiscal Sustainability and Financial Condition Report, Actions Now Can Reduce Risk of Future Problems. July 2011.
<http://www.portlandonline.com/auditor/index.cfm?a=358191&c=53775>

Personal Interview with the Director of the Audit Services Division, Mr. Drummond Kahn. January 2014.

Office of the City Auditor, Transition Report Key Risk For City Council July 11, 2013. <http://www.portlandonline.com/auditor/index.cfm?a=455658&c=60923>

Office of the City Auditor, Spending Utility Ratepayer Money: Not always linked to services, decision process inconsistent. March 2011.
<http://www.portlandoregon.gov/bfs/article/468272>.

Office of Management and Finance BAC Meeting. Debt Management.

Asset Management Documents, Provided by PWB for Review upon Request.

COOP Documents, Provided by PWB for Review upon Request.

Span of Control. Bureau Totals as Reported in Requested Budget 2013-2014.

City Budget Office, Council Budget Work Sessions Span of Control Data.
<http://www.portlandoregon.gov/cbo/61621>

Bull Run Dam 2 Tower Improvement Contract Manager/General Construction Guaranteed Maximum Price December 14, 2011 Presentation to Council, (Pelton Round Tower, Cougar Dam comparison data)

PWB 2011 QualServices Performance Indicators. Water and Wastewater Utility Survey, Benchmarking Summary Annual Report 2011. AWWA.

PWB Bacterial Monitoring, Total Coliform Rule.
<http://www.portlandoregon.gov/water/63755>

Willamette River Crossing: Mike Stuhr P.E. Chief Engineer, Presentation to Mayor Hales and Commissioner Novick.

Seismic Risk to Oregon Highway for ODOT Mitigation Actions. Metro
Bridge Performance.

[ftp://ftp.odot.state.or.us/Bridge/bridge_website_chittirat/2009 Seismic Vulnerability_final.pdf](ftp://ftp.odot.state.or.us/Bridge/bridge_website_chittirat/2009_Seismic_Vulnerability_final.pdf)

2013 ODOT Bridge Inspection Report.

[ftp://ftp.odot.state.or.us/Bridge/bridge_website_chittirat/2013 Br Condition Report wBookmark 082013.pdf](ftp://ftp.odot.state.or.us/Bridge/bridge_website_chittirat/2013_Br_Condition_Report_wBookmark_082013.pdf)

Moore-Love, Karla

From: kellie Barnes [kellieb@easystreet.net]

Sent: Tuesday, January 21, 2014 3:11 PM

To: Moore-Love, Karla

Subject: Upcoming Communications

Hello Karla,

My name is Kellie Barnes, and I am a community member for PWB BAC. I am scheduled or an upcoming Communication slot to present to the Council my observations as a community member. I can not find it per e-mail. Could you kindly remind me if it is 2/5 or 2/12 and the time please?

Thank you,

Kellie

1/21/2014

Request of Kellie Barnes to address Council regarding observations as a
community member of the Portland Water Bureau Budget Advisory Committee
(Communication)

MAR 26 2014

PLACED ON FILE

Filed MAR 21 2014

LaVonne Griffin-Valade
Auditor of the City of Portland

By  _____

COMMISSIONERS VOTED AS FOLLOWS:		
	YEAS	NAYS
1. Fritz		
2. Fish		
3. Saltzman		
4. Novick		
Hales		