



March 12, 2015

To: Honorable Members of the Portland City Council

From: Janice Thompson, CUB Consumer Advocate for Portland Public Utilities

Re: 2015-16 Bureau of Environmental Services and Portland Water Bureau budget proposals

My testimony begins with budget process suggestions followed by comments on the budget itself starting first with observations pertinent to both bureaus and then continuing with comments specifically about the Bureau of Environmental Service (BES) and Portland Water Bureau (PWB) proposed budgets.

BUDGET PROCESS

In the spring of 2016 I hope to see a City Council utility rate hearing with robust involvement of a fully engaged Portland Utility Board (PUB) as recommended by the Utility Oversight Blue Ribbon Commission. I was specifically recruited to serve on the Utility Oversight Commission as a CUB representative and am committed to working with Commissioner Fish and the rest of the City Council on full implementation of its three major recommendations:

- Replace three internal oversight committees with the PUB that will have dedicated staff so it won't have to rely on the utility bureaus it is monitoring for analysis and a clearer charge to review capital improvement planning.
- The City Council must integrate the PUB into all steps of its budget process and adopt new standards to ensure that this new oversight group is a strong and effective group that is not ignored.
- CUB should continue as residential ratepayer advocate providing analysis from outside City Hall. CUB is not paid by the city and our work is independent because we rely on membership support. The scope of CUB's analysis will be broader than originally anticipated since we will be monitoring both the City Council and the new PUB.

These recommendations reflect critical elements of effective utility oversight that are comparable to the three legs of a stool. For too long, the Portland utility oversight "stool" only had two legs with the internal oversight leg all too frequently ignored by the decision making leg, the City Council. The third leg – independent analysis and comprehensive advocacy from outside City Hall – was missing until last year when CUB began playing this role.

In 2016 I suggest that the first rate hearing be held about a month later than today's session. This recommendation is linked to a broader suggestion for effective and efficient utility oversight interactions with the utility bureaus. The nine-member PUB replaces the current Portland Utility

Review Board and budget advisory committees of PWB and BES. Though PUB recruitment will be a challenge, it actually involves finding fewer volunteers than in the current set of internal oversight groups. Involvement of PWB and BES staff can also be more targeted. For example, the trend of having significant numbers of agency staff attend each budget advisory committee can be replaced by more efficient and targeted staff involvement at PUB meetings when their program areas are on the agenda.

Bureau time demands can also be better managed by the sequential work on budget development by the PUB in the fall with monitoring and input from CUB, then analysis of requested budgets by the City Budget Office (CBO), followed by time for review of requested budgets as informed by the CBO analysis by PUB, CUB, and the public in development of testimony in early April at the first utility rate hearing. This year the CBO analysis came out on March 9th and though CUB could do a quick review of the CBO reports before this hearing on March 12th, more time would have been helpful and more time would definitely be needed by the PUB given the anticipated monthly schedule of that internal utility oversight group.

The short window between the CBO report and the first utility rate hearing in 2015 also meant that bureau personnel were being asked questions by multiple players. Knowing about the CBO process I posed most of my questions later in February and was able to reduce duplication since I was familiar with past CBO reviews. The timeline outlined in Table 1, however, allows for a more efficient sequence of bureau assistance to internal and outside oversight reviewers in the future. BES also indicated that this revised hearing timeline would align better with the availability of data they need during rate setting.

Table 1 - Budget Process and Sequential Utility Oversight Review and Hearings

Sept-Jan <i>(replaces PURB and short term BACs with year round PUB with its own staff and clearer role in reviewing capital improvement plans and their impact on budgets)</i>	Feb	March	Early April	Mid April	Late April	May
PUB input into PWB and BES budget development with Commissioner-in-Charge CUB attends and provides input but is monitoring both bureau and PUB activity Requested budgets due early February	CBO review for City Council PBW & BES staff are resources	PUB and CUB review of CBO analysis PBW & BES staff are resources	First utility rate hearing with PUB and CUB testimony informed by CBO analysis as well as public testimony	PUB is partner with City Council in PWB and BES budget work session	Mayor's budget	Final utility rate hearings PUB and CUB testimony: agreements and disagreements and next steps

Mapping out more details is still needed, however, to ensure timely discussion of utility bureau issues by the PUB, particularly programs and projects with longer-term rate implications. One option is the quarterly meetings with CBO, the City's debt manager, and the PUB proposed in the March 9th CBO reviews of the utility bureaus. Given time constraints on the PUB, it may want to consider delegating a subcommittee to participate in such regular meetings. It also seems

prudent to determine if the goal of quarterly meetings could be better met by meetings scheduled at key decision points in the annual budget and rate setting process. In other words a “when key information is available or decisions are required” timeline rather than a calendar based schedule may be more productive and efficient for the PUB. It is great, though, that the CBO is proactively thinking about integrating the PUB into the budget process and involvement of the debt manager in PUB discussions is also critically important.

CONSIDERATIONS APPLICABLE TO BOTH BUREAUS

General Overview

Both utility bureau budgets reflect continued attention to mission-driven spending and follow mayoral and commissioner-in-charge directives. The benefit of having one commissioner-in-charge for both PWB and BES is demonstrated by Commissioner Nick Fish’s focus on the combined average residential rate impact of increases from both bureaus. The combined average residential utility rate increase for fiscal year 2014-15 was 4.9%. The combined average residential rate increase is 4.8% for fiscal year 2015-16 meets the “within the range of last year” goal requested by Commissioner Fish and represents a \$4.58 monthly increase in the average residential water, stormwater, and sewer bill.

The proposed 3.85% rate increase for average residential sewer and stormwater rate from BES is less than the 4.5% increase projected in last year’s financial plan. The proposed 7% rate increase for average residential PWB customers is a significant reduction from the 11.3% projected increase in last year’s financial plan. The PWB decrease is good news for customers, but that story can get lost due to sticker shock about a projected double digit rate increase during financial planning with less media coverage of the subsequent average residential rate increase request. Financial forecasting is always challenging and there are reasons why this is especially the case for water utilities. This is described quite well on pages 3 and 4 and in Table 2 of the CBO analysis dated March 9, 2015. Forecasting challenges, however, also speak to the need for transparency and public education by PWB but also by the new PUB.

Continue annual rate setting

There have been calls for the new PUB to consider two-year rate setting. CUB has been skeptical about shifting from annual rate setting given the challenges of financial forecasting. At the very least discussing a change from annual rate setting doesn’t seem like it should be a top PUB priority. This view is reinforced by CBO’s discussion of PWB financial forecasting that identifies “value in addressing rate requirements each year rather than adopting two- or five-year rates. By adopting rates each year, the bureau is able to fully capture any prior year savings and adjust assumptions as required.” Though written about PWB the same sentiment seems applicable to BES rate setting.

Deputy directors

Requested budgets for both PWB and BES, at the direction of Commissioner Fish, include deputy directors. CUB is not opposed to deputy directors since these are two of Portland’s largest bureaus with major assets and significant interactions with Portlanders. Nevertheless, more clarity on the goals to be met with these new positions would be helpful. One option is to

designate deputy directors as point players in leading BES and PWB in fully embracing the new PUB and upcoming changes in utility oversight.

Consideration of bureau specific dynamics is also suggested regarding deputy director discussions. BES, for example, is hiring a new director and discretion for that person to propose changes in that bureau's leadership structure in ways that may not include a deputy director seems prudent. Given that two new leadership hires are likely at BES, another consideration is finding a balance between outside experience and knowledge of Portland governance dynamics. At PWB thinking ahead to a longer-term leadership transition plan may be prudent since it can inform the hiring of a deputy director.

Resiliency

PWB and BES own and manage a significant portion of Portland's capital assets. Planning for resiliency is a major City of Portland priority and the utility bureaus have been proactive on this issue. Capital improvements linked to meeting resiliency goals will be significant into the future and public education will be vital on the part of the City Council regarding citywide improvements and by BES and PWB regarding their assets. Involving the PUB in resiliency discussions and subsequent capital improvement planning should also be a priority.

BUREAU OF ENVIRONMENTAL SERVICES

Current situation and future challenges

Having recently completed the Big Pipe set of major construction projects, BES is in a "right sizing" stage with a capital improvement emphasis on maintenance and reliability projects informed by the bureau's asset management plans. Two future capital improvements challenges are worth noting with a particular suggestion that they provide an important opportunity for BES to demonstrate its full embrace of stronger oversight by the PUB which should be involved in early development of major projects and programs. There will be other future challenges but these two are highlighted here because initial assessment work is included in the current budget request.

The first challenge is the scope of possible improvements to the Columbia Boulevard Wastewater Treatment Plant (CBWTP) that may be required to prevent violations of environmental permit requirements and are beyond the CBWTP projects already underway. Updating the CBWTP Facilities Plan is expected to be done by the end of 2016 and this planning process can be a vital tool for ensuring broad discussion of alternatives and public education about possibly significant construction costs.

The second challenge is linked to a bullet on page 9 of the proposed budget that reads: "The extent of stormwater system needs is unknown. The estimate [in the 2014 Citywide Assets Report that identifies an annual funding gap of \$12.4 million for BES] makes very broad assumptions from the Stephens Creek pilot for both rehabilitation and capacity needs." Luckily BES has been working on identifying the extent of stormwater system needs and the proposed FY 2015-16 budget includes funding for a Citywide Stormwater System Plan (SWSP). This funding should not be reduced.

Developing the SWSP plan will enable BES to develop and apply to natural systems the net benefit cost ratio (nBCR) asset management tool used to evaluate grey infrastructure projects. This may sound simple but it is challenging especially given the need to scale up from pilots and studies to ongoing and efficient efforts. For this reason the SWSP work plan is critically important and will inform the scope of grey projects along with future green infrastructure options for harnessing the power of nature to manage stormwater. Successful completion of the work plan will be facilitated by the move of several engineering staff into the reconfigured Sustainable Stormwater unit within Watershed Services.

Appropriately, the draft SWSP work plan already calls for active involvement of both CUB and the new PUB. Such involvement is vital, especially given past misunderstandings about the value of green infrastructure and the important role that BES plays in Portland's watershed health.

Sanitary System Development Charges

System development charges (SDC) allow BES to recover an equitable share of sanitary sewer and stormwater drainage facility costs from new development. State law provides guidance on determining SDCs and this process is explained in the annual BES Sewer System Rate Study. Presumably due to the economic downturn, however, the sanitary sewer SDC was reduced in the fiscal year 2011-12 and frozen for fiscal year 2012-13. Since "catch up" steps have not been taken since those two fiscal years, the lost revenue between the allowed sanitary sewer SDC and the actual SDC charged to developers continues to increase as outlined in Table 2.

In effect, BES ratepayers have subsidized developers that have not been charged the sanitary sewer SDCs allowed under state law since fiscal year 2011-12. CUB strongly recommends that the City Council reverse its previous decision and return to charging the full SDC allowed under state law. Phasing in this return of fully charging the allowed sanitary sewer SDCs over the next two fiscal years is acceptable to CUB.

Table 2 – Reductions in Sanitary Sewer SDCs

FY	Allowed SDC	Allowed rate of increase	Reduction factor	Actual/reduced SDC	Actual rate of increase	Lost revenue per charge
2010-11	\$4,089	6.62%	n/a	\$4,089	6.62%	
2011-12	\$4,495	9.93%	96.9%	\$4,335	6.51%	\$160
2012-13	\$4,779	6.32%	95.9%	\$4,585	0.00%	\$444
2013-14	\$5,264	10.15%	86.5%	\$4,551	4.98%	\$713
2014-15	\$5,622	6.80%	85.0%	\$4,779	5.01%	\$843

Evidently one concern about "catching up" sanitary sewer SDCs has been that the allowed rate of increase may be higher than the average residential rate increase. Such a concern, however, is based on a false equivalency between residential rates and SDCs that is inappropriate. After all if a residential customer requested that their sewer bill be reduced by the 85% reduction factor now applied to sanitary sewer SDCs they would be turned down flat.

If the allowed sanitary sewer SDC had been charged in fiscal year 2014-15 the additional revenue raised would be slightly more than \$2.5 million dollars. SDCs must be used to defray

BES debt service or capital construction costs, but added resources directed to those purposes can relieve pressure for use of ratepayer dollars.

Cost recovery – BES fees

BES charges developers building plan review and land use review fees at levels below full cost recovery. For example, in fiscal year 2013-14 cost recovery was about 40% compared to the full cost for these two categories of review fees. It is valid, however, for full cost recovery to not be the goal because all ratepayers benefit when new users are added to the sewer system. This is akin to businesses frequently forgoing full cost recovery for delivery services because free delivery helps attract new customers.

If full cost recovery is not the goal, however, the question is what level of cost recovery is appropriate to charge developers for building plan and land use review fees? CUB recommends an 80 to 90% cost recovery goal. If the cost recovery goal for building plan review and land use review fees was 80% in fiscal year 2013-14 the recovery rate was only 50% of that goal. This 30% shortfall is significant and is really a subsidy to developers since this difference is being absorbed by BES with a detrimental impact on ratepayers. For example, BES would have gotten about \$1 million more revenue in fiscal year 2013-14 if there had been 80% cost recovery of these building plan and land use review fees.

Keep in mind, however, that these building and land use permit related fees fluctuate so the additional revenue linked to a more appropriate level of cost recovery wouldn't be \$1 million on an ongoing basis. Fluctuations in this category of revenues also highlight the need for contingency planning which BES is discussing.

It is not appropriate to abruptly jump to the 80 or 90% cost recovery goal and CUB recommends phasing in increases to these land use and building permit review fees over the next three to five years.

BES also charges for industrial waste and septage discharge permits. The permit fees evidently do not allow for full cost recovery and CUB is continuing conversations with BES staff to develop possible cost recovery improvements regarding these permits. We recognize that permit fees can be set at a level that might trigger increased non-compliance and so finding the "sweet spot" between cost recovery and encouraging permit compliance will be a priority as CUB continues this discussion with BES.

Street sweeping and evaluation of BES and PBOT interagency agreement

At the May 2014 utility rate hearing, I expressed concern about continued BES support of street sweeping done by PBOT due to studies showing minimal water quality benefits and removing debris from the collection system being more cost effective than street sweeping. For example, a bioswale along the street harnessing the power of nature for stormwater management is operating every day around the clock compared to occasional street sweeping. A previous fiscal year budget note requested an evaluation of the street sweeping program, but the memo seems rather inconclusive and BES is continuing to pay \$183,500 for street sweeping in the proposed 2015-16 budget. Though this is an appropriate reduction from past levels of spending, CUB recommends further examination of BES paying for street sweeping.

It is appropriate for this further evaluation to occur within the planned CBO review of the interagency agreement between BES and PBOT's Maintenance Operations group and CBO's following up on a December 2010 City Auditor report that "found that there is sufficient evidence of potential cost reductions to warrant further study of the operational costs and benefits involved in ending the agreement with PBOT for sewer maintenance services." CUB will be requesting updates from CBO on their review and suggests briefings to the PUB on this topic as well.

Brownfield program

Housing the Portland brownfield program at BES is appropriate since this bureau serves as the environmental science agency for the city. Evidently the brownfield program originated in another city agency but was moved to BES given that bureau's testing and general scientific capacity and that makes sense.

The question is whether or not the brownfield program objectives are in alignment with BES goals such that use of ratepayer dollars is appropriate? Whether the general fund or possibly a combination of ratepayer and general fund dollars is a more appropriate funding source merits review. A general rationale for use of ratepayer money is that stormwater runoff from brownfield sites is a BES concern, but a more rigorous examination of this question is needed.

It should be noted that the brownfield program only has two staff, a program coordinator and a community services aide and much of their work is managing grant programs whose dollars come from non-BES sources. But even if relatively few dollars are involved evaluating the appropriate funding source is still valid.

CUB plans to meet with BES staff to explore this question. Any findings that are available before the City Council utility bureau budget work session will be conveyed to Commissioner Fish. It may be that this will become a discussion regarding the next fiscal year's budget and can involve the PUB. But if a quick determination is feasible, then an adjustment in the current budget request is suggested. If another method for examining this question is preferred, I am open to other options. CBO's BES analyst has indicated an interest in participating in CUB discussions with BES staff on this topic.

Decision package

CUB has asked BES whether the added staff in the current decision package would be followed in the next fiscal year by another round of requested staff increases. As I suspected the response was "probably not" since the fiscal year 2015-16 decision package seems to reflect that BES is in a "right sizing" stage as noted earlier. Given this dynamic, CUB supports the decision package especially those elements that end contractors doing the same work as BES employees working next to them as well as addressing backlogs and chronic use of overtime.

If cuts to the decision package are made, CUB recommends foregoing or delaying the Front Desk Reception position and reviewing the need to return the Clean Rivers Education program to its historic staffing level of two Environmental Program Specialists. The Clean Rivers Education

program focuses on schools and its two-person staffing level was reduced in June 2013 due to budget cuts. Since then there has been one full-time educator (Environmental Program Specialist) and one to two seasonal, part-time positions filled by community service aides. This has reduced the number of school children reached. There are regulatory drivers for BES educational efforts since many permits include education and public outreach as best practices that must be met. But how extensive an education program is required to remain in compliance with environmental regulatory permit requirements? There is no definitive answer to this question but the reduced level since mid-2013 seems to have been acceptable.

In a perfect world there would be no question about adding back the second full-time educator as called for in the decision package. But we are not in that perfect world and even with limited resources the reduced capacity facilitated by a Clean Rivers Education program with just one full-time educator and part-time seasonal assistances still reaches significant numbers of students and meets regulatory requirements. At the very least CUB presents this discussion to highlight the need for careful review of the difference between desirable programs and essential programs.

A tipping point, however, in favor of restoring the proposed Environmental Program Specialist position became clearer in documentation provided after the BAC process regarding added capacity for a high school intern program. This natural resources management career component of educational efforts is a valid BES priority since the bureau's workforce is aging and thinking now about future staffing from an equity perspective can meet important diversity goals. If the second Environmental Program Specialist is added to the 2015-16 fiscal year budget CUB urges that a priority be placed on the high school intern and stormwater and sewer management career elements of the educational program with an equity emphasis. CUB concurs with the CBO recommendation about BES developing a protocol for measure outcomes since merely numbers of students reached is not an adequately robust indication of success.

CUB also supports CBO staff reaching out to program managers in all bureaus that conduct environmental education to share opportunities, successes, and challenges. CUB identified the dynamic of environmental education programs occurring in more than just the utility bureaus in our May 2014 testimony to the City Council and the need for consultation and exploration of possible coordination. It is great that CBO has taken on this convening role that, appropriately, is a citywide endeavor and CUB is also pleased that the Office of Equity and Human Rights will be involved.

PORTLAND WATER BUREAU

Current situation and short term challenges

A major increase in capital improvement projects driven by regulatory requirements has been a major factor in recent PWB rate increases. This trend is now declining though ongoing maintenance and infrastructure replacement projects continue, notably the Willamette River Crossing and Washington Park reservoir related work. Another projected rate increase factor is losing the Tigard wholesale contract in 2016.

So rate pressure remains with a projected requested average residential rate increase of 9.4% in both fiscal year 2016-17 and 2017-18 followed by projected increases the next two fiscal years of 7.3% for average residential customers. Though those lower 7.3% projections will be helpful to Portland residents the prior two years with average residential rate projections of 9.4% will be a challenge to many Portlanders.

Retail water use trends

A significant national challenge is declining water demand, particularly by retail customers. This is illustrated for Portland in Table 4 of the FY 2015-16 Preliminary Financial Plan. The retail water demand dip between fiscal years 2012-13 and 2013-14 is particularly troubling since it was particularly dry during that time period and there had been some indication that retail demand was starting to level off. The PWB tracks this information very closely and retail water use during the current 2014-15 fiscal year is on track to be about 25 million CCF. Barring another dip like that seen in fiscal year 2013-14, the projections for fiscal year 2015-16 and beyond may be valid. But this must be carefully tracked because it isn't clear that retail water demand has leveled off. The rate of demand decline definitely appears to be easing, but it seems quite possible that the downward trend, even if at a gentler rate, could continue. For example, one finding from a February 2015 PWB analysis of 2006-2014 trends of retail consumption by customer groups is: "the rate of decline in per capita per day consumption metrics more than offsets the expected increase in consumption due to population growth."

It should be noted that during budget development the retail demand projection for fiscal year 2015-16 was reduced from 25.3 to 25.1 CCF. This change made sense but the process behind this shift was a bit troubling. Rather than ratcheting down the retail demand estimate because it seemed to be a more valid number, it was reduced because other factors such as a particularly favorable bond sale last fall enabled meeting a 7% average retail customer rate increase goal even with a lower retail revenue estimate. Partly this is the nature of financial forecasting but this approach, though it worked this time, could backfire if continued overly optimistic retail demand projections result in a larger PBW budget request than is appropriate. In general, retail demand forecasting needs to be a topic for careful consideration by the PUB during development of the fiscal year 2016-17 budget.

Longer term challenges

Beyond the current 5-year CIP plan PWB identified the following long range planning updates and studies that have either begun or will be launched soon:

- Infrastructure Master Plan Update
- Water System Seismic Study
- System Vulnerability Study Update
- Natural Hazard Mitigation Plan
- Groundwater Expansion Improvements
- Eastside Supply Master Plan

PWB development of these planning documents should fully engage the new PUB to ensure transparency and facilitate public education about possible future major construction projects. These planning procedures, particular discussion of groundwater expansion, should also be informed by the 2018 Water Management and Conservation Plan mandated by the Oregon

Department of Water Resources. Particularly important is linking capital improvement planning with updated overall water system supply demands that is part of that 2018 Water Management and Conservation Plan. A comprehensive PWB water supply system demand update particularly given that previous water system demand study was done in 2007 before the major economic downturn and is widely understood to have overestimated water needs.

Customer service

Customer service is always important but given the decline in retail customer demand it seems particularly important. It is important to note that the customer call center is managed by the PWB but also handles calls related to sewer and stormwater management services offered by BES. This is the major reason the utility base charge goes to PWB. In the past when that charge was split between PWB and BES the revenue to BES was given back to PWB in payment for their customer service function. Though there is no BES base charge per se, this is more a reflection of ending the accounting exchange between BES and PWB to cover BES costs for the customer service center run by PWB.

The PWB selected a performance standard for customer calls to be answered within 60 seconds 80 percent of the time. This is a high target based on a 2007 Australian utility performance study. Over the last five fiscal years the percentage of customer calls answered within 60 seconds ranged from 43 to 55 percent. The average wait time, however, is consistently under or just slightly over two minutes, but PWB is not aware of any industry standard for this metric. The abandon rate or percentage of calls that do get answered is consistently above 90 percent which indicates that the wait time is manageable for a high percentage of Portland customers.

Comparing PWB to other utility customer call centers in terms of meeting the calls answered within 60 seconds standard is challenging due to variation in the scope of call center functions, staffing options, and use of technology. PWB adopted an Interactive Voice Response (IVR) system that allows customer to pay over the phone at any time of day without involvement of a customer service center employee in 2013 which has worked well. The PWB would like to adopt other customer self-service (CSS) opportunities so that customers can use the PWB website to make payment arrangements, notify PWB about moves, and changes in mailing addresses.

There will still be customers who want to talk with a real person, but increasingly customers want online options for managing their own accounts and this is a win-win for the customer and the PWB. More information on customer interests and satisfaction will be available after an after-call survey option is installed with input from the Bureau of Technical Services.

A barrier for swift adoption of CSS options is that management of the Cayenta billing system is housed in the Revenue Bureau and not at PWB. This is a concern CUB has raised in the past and we urge the City Council take a harder look at changing this staffing configuration.