

RECOMMENDATIONS REGARDING PWB BUDGET REQUEST

**For consideration by the full PURB on 3/18/2010
Submitted by**

PURB Water Bureau Standing Committee

MARCH 11, 2010

Given the difficulty and diversity of the issues we are addressing, we request that each of the recommendations listed below be voted on separately using a roll call vote.

Opening Statement:

This year we have chosen to focus on long term, strategic issues. We cannot endorse any budget request if it does not address these long term issues. Once these long term issues are part of the budget, then we could look at the details of this year's budget proposal.

Proposed PWB Budget Recommendation #1:

Issue:

We are concerned that the City of Portland cannot provide utility services to residents at just and reasonable rates because the current system for setting water & sewer budgets and rates lacks effective checks and balances.

Recommendation:

Before proposing a new system for rate setting we believe it is prudent to first gain a deeper understanding of the extent of unrelated spending by the utility bureaus, as well as a broader perspective on best practices for setting and approving utility rates. Therefore we recommend:

A \$21,000 addition to the BES budget and a \$9,000 addition to the PWB budget (yielding \$30,000 total (representing 0.004% of spending)) to hire a consultant to report back on best practices for the approval process on public utility rate setting and to make recommendations for Portland. This consultant would report to a steering committee chaired by a member of PURB and including as an ex-officio member a person from the City Auditor's staff.

In addition we request that the City Auditor's Office consider undertaking an audit of BES & PWB spending trends to determine the financial extent and purposes of any spending unrelated to the delivery of utility services to rate paying customers.

Background:

Diversion of rate revenue for projects that are unrelated to the delivery of utility services has been a long term concern of the PURB. Yet the PURB has been unsuccessful in curbing these diversions.

- Some recent examples of PWB spending rate revenue for projects that are unrelated to the delivery of utility services:
 - \$500K+ each year for maintenance of park fountains & downtown bubblers.
 - Over \$15M in bond funded work for PDOT projects involving MAX and the Streetcar over the last decade.
 - Excessive (7.5%) license fee. Now gradually being lowered to 5%. But why is any license fee fair when the revenue is being used for unrelated city spending?
- Some recent examples of media reports on proposals from City Commissioners to spend rate revenue for projects that are unrelated to the delivery of utility services:
 - Using utility rate revenue to fund the Bicycle Master Plan.
 - Using utility rate revenue to fund college scholarships for impoverished youth.

- The current system for setting water & sewer budgets and rates lacks effective checks and balances. The same group (the City Council):
 - generates the budget;
 - approves the budget;
 - can divert revenue for other, unrelated, City projects and
 - has unlimited authority to raise rates to match the desired spending of a utility monopoly

Discussion:

The current system for setting water & sewer budgets and rates lacks effective checks and balances. This situation is made even worse by Portland's commission form of government where each Commissioner directly oversees a portfolio of City bureaus. The upside is that Commissioners have more freedom to innovate. The downside is that there is minimal oversight of bureau operations by the other commissioners.

In our opinion this is a severe shortcoming when considering the utility bureaus because the Commissioners have unlimited authority to raise rates to match spending for those bureaus. After noting that the PURB has unsuccessfully tried to deal with this issue in the past, we are now convinced that the current system cannot ensure that water rates are based on a "cost of service principle". We believe all of our concerns also apply to how the Council handles BES.

For these reasons we are recommending taking steps to move toward a new process, with substantial checks and balances, for establishing budgets and setting rates for PWB and BES that comply with "cost of service" principles.

Proposed PWB Budget Recommendation #2:

Issue

Affordability is a key component of the rate review process established by PURB in 1999. Ratepayers have a right to expect that existing public utility operations are as effective and efficient as possible.

Recommendation

Using the 2006 “*QualServe Peer Review Report*” as a basis the PWB should expeditiously plan, design and execute a program that implements the most promising opportunities for improvement. Target goal would be a 15% reduction in controllable costs by 2015.¹ Results and progress on program goals should be periodically shared with such groups as the PURB and Portland Water Bureau Budget Committee as well as included in the annual budget document as a way of assuring the ratepayers that every effort is being taken to operate the utility in the most effective and efficient manner.

Background

- The Portland Water Bureau (PWB) is proposing a 12.9 % rate increase for FY ‘11 and a 13.5% rate increase for each subsequent year in the Five Year Financial Plan
- The annual bill for a typical PWB residential customer is expected to more than double by FY 2015
- In 2006 PWB conducted an external and independent peer review of its business practices through a program called *QualServe*
- A *QualServe* Peer Review Report was issued that identified strengths as well as opportunities for improvement

Discussion

- Large projected rate increases threaten customer affordability
- In order to keep rates affordable there is a need to offset large projected rate increases as much as possible with reductions in controllable costs
- Ratepayers have a right to expect that existing public utility operations are as effective and efficient as possible
- Organizational improvement programs based on third party reviews, if done properly, have been shown to significantly reduce controllable costs (salaries, overtime, fringe, professional services, utilities, chemicals and supplies) without layoffs or threats to service, quality or safety

¹ “Based on more than 100 water and wastewater utilities examined over the last five years, one firm reports that service delivery by public water and wastewater utilities is, on average, 24% more expensive than comparable private services.” Association of Metropolitan Sewerage Agencies/Association of Metropolitan Water Agencies, Thinking, Getting, Staying Competitive: A Public Sector Handbook, Washington, DC, p. 3; EMA , Competiveness Assessment presentations, AMSA/AMWA , 1997