

**Portland Business Alliance Position
Statement on Portland Public Water District Initiative/Summary
February 11, 2014**

The Portland Business Alliance Board of Directors has elected not to support the proposed initiative because it believes that the measure is fundamentally flawed and is likely to result in poorer management and higher rates for the city's water and sewer utilities than the current governance system. At the same time, the Alliance believes the current management framework for the two utilities is flawed and needs substantial change. The Alliance offers the following reasons for not supporting the initiative and suggested criteria for reform of the existing system.

Flaws in the Initiative

The flaws in the measure are:

- **Flawed management and governance.** The measure doesn't address the current problems with the management of the bureaus. Its proposal to elect directors by geographic district could actually exacerbate the current problems with the governance structure of the system.
- **No guarantee of lower rates.** Nothing in the proposal ensures that rates will be lower in the future than the current trends predict.
- **Flawed bonding authority.** The initiative would require the city to issue bonds for the new entity but the city would not have the authority to set rates to repay those bonds. The initiative would also eliminate the current limitation on maximum bonded indebtedness of the bureaus. Both changes could result in a significant downgrade in the quality of future debt and potentially violate bond covenants for existing debt.
- **Geographic districts for a city-wide system.** Electing directors by zone will introduce parochial considerations to decisions about how to efficiently and effectively operate these city-wide utility systems. These considerations could easily politicize decision making, increase costs and reduce the efficient operation of the system
- **Disqualification of qualified directors.** The measure would disqualify such a broad swath of potential candidates with knowledge about or experience with water and sewer utilities that the result is likely to be a board that has no practical understanding of how to manage complex and integrated utilities.
- **Flawed district boundary.** The initiative requires that the boundary for the new district shall be "coextensive" with the boundary for Portland Public Schools (PPS). Since nearly a third of Portland residents are outside the PPS boundary, this creates significant uncertainty about how these areas would be governed.
- **Oversight and regulation.** The initiative exempts the new entity from oversight by the City Auditor and from conforming to the Civil Service requirements of the city charter.
- **Bull Run management restrictions.** The initiative could prevent the city from making improvements in Bull Run for storage, treatment or delivery that may be in the best interests of the community.
- **Impact on wholesale water contracts.** Loss of current wholesale contracts would cause Portland retail water rates to rise dramatically. The city's relationship with its wholesale customers is already tenuous at best and some are opting to explore alternative sources because they are not confident of the city's long-term approach to its wholesale agreements. Radically altering the governance structure of the water bureau will create further uncertainty and concern on the part of wholesale customers, potentially accelerating movement away from reliance on Portland as a supply source.
- **Shared services.** The two bureaus currently rely on the broader city structure to provide many necessary functions such as financial planning, human resources, retirement, legal, fleet and government affairs. The new entities will either have to contract with the city for these services or add significant staff to fund these positions.

Although the Alliance believes the ballot initiative is irreparably flawed, it also does not believe the current system serves the best interests of utility ratepayers. The Alliance believes the fundamental flaw in the management structure of the bureaus derives largely from the commission form of governance which puts the bureaus under the exclusive control of a single commissioner who can effectively exclude the rest of the council, and the public, from the decision-making process and access to the information needed to evaluate policy options.

The Alliance suggests that a new management structure be adopted within the City Charter to address this flaw. The Alliance believes the new structure should provide for the following:

- Re-charter the utilities as municipal corporations of the city of Portland with the express mission of providing its customers with least-cost services consistent with state and federal law and prudent utility management
- Management of the utility corporations by the entire city council acting in the capacity of a board of directors separate and distinct from their duties as city council members
- Rates set and capital improvement program developed by a citizen advisory commission made up of a broad spectrum of stakeholders with staff that is independent from the municipal corporations
- Rates and capital improvement programs can include only those investments or costs that are:
 - For the direct benefit of utility customers
 - Least cost consistent with prudent long-term management
 - Necessary for the efficient operation of the utilities and serving of incurred debt
- Rates and capital improvement program submitted to city council sitting as board of directors
- Council override of commission recommendations only with majority of four votes cast

Short of changing Portland's commission form of government, the Alliance believes the utilities should be managed by the entire city council with oversight by an independent rate-setting body with staff that is independent of the bureaus. We believe this is the only way to ensure that in the future neither the commissioner in charge nor the bureaus themselves have undue control of rates or major capital improvements and that the public can have assurance that utility rates and capital investments are prudent and justified.