

PORTLAND UTILITY REVIEW BOARD

May 11, 2010 - Meeting Minutes

Attendees

PURB Members: Janis Adler, Michael Crean, Bill Dayton, Sharon Kelly, Tracy Marks, Charles Rosenthal, Charles Van Rossen, and Lila Wickham

Excused Absence: None

Unexcused Absence: None

City Staff: Lisa Shaw and Bob Tomlinson (OMF - FPD)
Jim Hagerman (BES)
Dave Hasson (Water)
David Shaff (Water/Comm. Leonard)
Arianne Sperry and Bruce Walker (BPS)
Patti Howard (Comm. Fritz Staff)
Matt Grumm (Comm. Saltzman Staff)

Public: Dave White (Oregon Refuse & Recycling Association)
Dean Kampfer (Waste Management)

Introductions

Everyone introduced themselves.

Review Meeting Agenda

Janis asked that the Increasing the Effectiveness of the PURB and the Administrative Review Committee agenda items be postponed to later in the meeting.

Review and Approve Previous Meeting Minutes

January 19, 21, February 18, and March 18 meeting minutes were approved as written.

Solid Waste Proposed Budget/Rates

Bruce Walker distributed a handout on proposed solid waste rates.

- Bruce Walker - The City hires a CPA firm to review a sample of financial reports submitted by commercial haulers. The targeted operating margin for the sample haulers in calendar year 2009 was 9.5%. There is a rate increase, but there are reasons for it, for example new programmatic changes, and haulers investing in less polluting trucks.
- Michael Crean – what is the 9.5%?
- Bruce – it is a target operating pre-tax margin; it is not guaranteed.
- Michael Crean – seems like a pretty high return given today's market.
- Bruce – haulers have stopped buying newer equipment; they have held down costs, but the vehicles pollute more.
- Arianne – the rates are based on projections; therefore the actual return will vary.
- Michael Crean – the franchise fee, the 5% paid to the city. Previously this came out of BPS?

- Bruce – Always part of the franchise agreement; we pay the Revenue Bureau the portion that would have been paid in business license fees. BPS no longer wants to make that payment directly, but the haulers will now pay this.
- Charlie Rosenthal – how does 9.5% compare to other municipalities?
- Bruce – others have city owned garbage service, so can't compare. Of other similar situations, some are lower or higher. Range of rates in the metro area are 8% to 10%. The city doesn't set the commercial rates that haulers charge in the City of Portland.
- Sharon Kelly – 2 components; 5% from residential and tipping fee from commercial and that's what the city has to spend. One area of confusion – the hand out talks about rate increase, but not about the budget piece. We talked about the surplus in the budget and this is being spent down?
- Janis Adler – What percentage of customers have the 32 gallon can and small roll cart?
- Bruce – This is 65% of households.
- Janis Adler – Monthly rate goes up \$1.10; what about others.
- Bruce – 90% of households will receive some increase.
- Charlie Rosenthal – why is yard debris and administrative charges going up so much?
- Bruce – note #3 refers to this; also the compost facilities that take the yard debris have increased their rates by about 15% in response to DEQ requirements. For Admin note 4 – one cost element is the business license revenue that must be covered by haulers now. The other items are administrative salaries – managers, customer service and rent. Those costs have increased. We don't try to micro manage a company to tell them what their admin costs should be. They may be able to achieve some real efficiencies.
- Charlie Van Rossen – some companies pay employees less and the owner more?
- Bruce – no, that would be extreme; some companies have longer work days
- Charlie Van Rossen – do you see a difference between publicly held and private haulers?
- Bruce – some private haulers must pay a fee to their headquarters; some of the smaller companies may be able to achieve efficiencies as well.
- Charlie Van Rossen – so 4.85 as the mean, but what's the range? The high and low?
- Charles Rosenthal – what if a company was able to achieve significant efficiencies and reduce the average rates. How would you know?
- Bruce – when the franchise was first issued in 1992:
 - It launched citywide recycling and yard debris pickup. Set up different geographic areas. The goal was to provide comprehensive list of services.
 - All haulers were awarded a contiguous area closest to where they already served. Used to have mixed haulers (four on one street). If only one hauler per area there must be rates set.
 - Now 21 franchises. How has business changed? Haulers have sold the franchises to other haulers. Need to make a purchase agreement with the City and that the level of service would comply.
- Janis Adler – let's talk about the commercial tonnage fee increase now.
- Bruce – No handout on this. We submitted add packages to City Council. There have been clarifications since the Mayor's budget regarding the SWMF. Solar trash cans and public recycling containers – now have clarity from Mayor's Office. Solar trash cans are NOT included in the budget. The public containers will be. The implementation of that program will add \$1 per ton to the commercial tonnage fee from \$5.80 to \$6.80. Currently the fee funds a variety of BPS programs. To compare Metro charges would be \$92.
- Janis Adler – This does not impact residential customers. 400 recycling containers purchased over 2 years. We should discuss this.

- Charlie Van Rossen – We already discussed; also discussed the ‘surpluses. The residential increase is really 14% - what are we getting for this?
- Bruce – Primarily to fund the new food scrap waste program that is currently being piloted and testing of every other week garbage pickup. Our biggest area of emphasis is the successful roll out of this program. One time \$450,000 for one year; mostly front loaded promotional and educational costs. There is an additional staff person added to address expansion of the program.
- Bruce – some of the increases are in the commercial sector and some funding is from METRO in waste reduction grants etc and this funds a lot of staff. We are addressing city policy and metro / regional policy.
- Lila Wickham – having a hard time following this. Residential is increasing by 4% and the commercial hauling by \$1. Who/why 14% increase.
- Charlie Van Rossen – two different worlds. The haulers pay and BPS gets their revenues from franchise fee and tonnage fees. The budgeted costs for BPS for personnel are increasing by 14%.
- Lila Wickham – spending down surplus in order to diminish the rate increase, right?
- Bruce – what we proposed in the 5 year financial plan, that by the end of 5 years, the balance would be at \$500,000. We are spending the reserves down; there will not be revenue to sustain expenses at the current level.
- Charlie Van Rossen – but a lot of these projects are not long term; implemented, done and then run themselves. Maybe some monitoring, but limited. I don’t understand why there is an increasing budget over the 5 years.
- Bruce – If we are to fund expanded program levels we will need to increase sooner. May need to cut program expenses if we can’t increase rates later.

BES Proposed Budget/Rates

Jim Hagerman distributed a handout.

- BES proposed \$106 million in operating budget; almost \$4.9 million in reductions. Cuts were accepted and no add requests were accepted. Plus a reduction of about \$400,000 for Intergovernmental Relations to get down to a 6.1% rate increase.
- Janis Adler – what percent of the 6.1% increase consists of other charges?
- Jim – the 6.1% does not include the page 7 charges / revenues.
- Michael Crean – if you compare last year’s operating budget to next year’s (excluding capital and debt service);
- Jim – operating budget is going down by about \$5.9 million out of a base of about \$106 million. We fund about 98% of that.
- Michael Crean – as you finish up CSO, you will still have debt service, but a big driver will finally be finished. You will not be adding debt service for CSO. But you are looking at rate increases of 6.1% each year for several years. Why not coming down?
- Jim – main reason, we have \$222 million for maintenance and reliability. In the forecast as the CSO ramps down, maintenance and reliability for asset management ramps up. The back log for capital maintenance is large and growing. About \$128 million of capital maintenance and backlog figures. Will need additional bond sales even after the CSO – will need to have an ongoing conversation with Council. Expect debt issuances every two years.
- Lila Wickham – so the Grey to Green is?
- Jim – grey to green is contributing to the community greenways. The bulk is land acquisitions and ecoroofs etc.
- Lisa Shaw – the green streets are in the capital budget?
- Jim – yes, and we are working with PBOT on these.

- Charles Rosenthal – revenue requirements for the CIP is over 5 years? Is there a chart that breaks it out for each year?
- Jim – I will send it out.
- Charlie Van Rossen – the rates have a fixed and a volume component?
- Jim – the impervious area charge is calculated as a flat monthly charge. For commercial, as you add or remove impervious area your bill will fluctuate.
- Charlie Van Rossen - Do you anticipate a reduction in water usage? Is this built into your assumption?
- Jim – yes, we are assuming a 1% decrease in usage.
- Charlie Van Rossen – what impact have you seen?
- Jim – in the mid 90s we were using between 6 and 7,000 cubic feet per month, and now it is 3 to 4,000. Now more aggressive about conservation assumption.
- Charles Rosenthal – how does decreases in consumption impact your rates in Water Bureau?
- David Shaff – it impacts us.
- Michael Crean – other parts of the country have block rates that depend upon the volume of usage, but Portland just has a rate that is applied evenly.
- Charlie Van Rossen – why not have fixed components? Could be called for replacement of assets?
- Jim – we would love to make rates in this way. Council decided it wanted ‘maximum controllability’. There is logic, but it makes the revenue stream riskier.

Water Proposed Budget/Rates

Dave Hasson distributed a handout.

- Going to be issuing a lot of debt, both for LT2 and other issues; our own version of the CSO program. Typical residential bill from \$22.02 to \$24.86 per month
- Charlie Van Rossen – what does the usage look like?
- Dave Hasson – I would not say exceptionally steep. There is a fairly wide band in terms of frequency usage.
- David Shaff – the Interstate Building needs to be updated; very poor conditions currently.
- Charlie Rosenthal – is this included on the debt issuance on page 1?
- David Shaff - yes \$50 million over next five years.
- Charlie Van Rossen – could you break out the chart so that it has operating separate from debt issuance.
- Janis Adler – what kind of public outreach have you planned when water bills go up so dramatically?
- David Shaff – we are already starting to answer questions and prepare to answer more.
- Lila Wickham – we appreciate that some of our recommendations were taken.
- David Shaff – the Mayor heard you.
- Lila Wickham – if you increase by percent over time, then you keep on the percent trajectory it will apply more to the higher end users. It worries me that residential users will get bigger disproportions.
- David Hasson – everyone would increase the same percent, but the absolute increase will certainly be different.
- Lila Wickham – it seems like on the analysis of the rates, if you did something like BES did on the CSO jurisdictions across the country, but with LT2 it would be helpful.
- David Shaff – won’t be apples to apples as other jurisdictions won’t have to cover their reservoirs. We have been using the Auditor’s Service Efforts and Accomplishments.

- Michael Crean – out of 12.9%, of that 5.9% is capital?
- Dave Hasson – about 8.5% is capital related;
- Tracy – how much is debt service?
- Dave Hasson – on page one you can see that much of it is debt financed. If we did not debt finance we would be looking at a 40% increase. Cash actually is cheaper overall, but debt financing is cheaper in the short term.
- Michael Crean – regarding LT2, you still have the open reservoirs over here and building more storage. Something about more storage than needed. Now you have about 50 million gallons more than you need.
- David Shaff – ultimately we will have LESS storage once the other ones are taken off line. The other facilities will be disconnected. No additional costs, but the question of what you do with the off line storage tanks is still under discussion. There will be some sort of determination / public process to determine what will be done, but that hasn't happened yet.
- Michael Crean – you predicted last year what FY 2010 would look like. How are the actuals looking?
- Dave Hasson – residential consumption spot on. Commercial is falling short. We are a bit under, but not horribly so.
- Charlie Rosenthal – what is happening on commercial side?
- Dave Hasson – the sum is going down by about 1%; approximately at that rate of decline.
- Bill Dayton – it's not your fault, but does the Council realize that this will not entice any business to stay or open in Portland.
- Dave Hasson – I think the way to look at it is to compare to other jurisdictions
- Bill Dayton – this is just such a big hit; businesses are the backbone of what keeps people downtown or what keeps people moving to the area.
- David Shaff – we are using the cost of service of providing a gallon of water. It's a zero sum game – if we charge commercial users less, we have to charge residential users more. We must comply with various edicts that cost money.
- Bill Dayton – are you saying that other cities do not have special rates for commercial?
- Dave Hasson – used to have a commercial tiered rate. Have not had a subsidized commercial rate. Most jurisdictions do not. Also, we are proposing a 4.3% SDC decrease.
- Charlie Rosenthal – what would be the consequence of not having a rate increase? Or only went up ½ the rate?
- Tracy – they have a cut proposal that we can look at.
- David Shaff – Appointments – we have two applications in; 4 community rep declarations of interest and doing recruitment for the large commercial customers profile for 10,000 cubic feet criteria. We should have 2 of 3 positions within the next few months.
- Charlie Rosenthal – can we set a date by which they will be confirmed? How about July 1?

PURB Rate Testimony

Janis Adler began the discussion of what the PURB rate testimony should include.

- Lila Wickham – Let's focus on funding/ budget issues; also I suggest going back to the original recommendations and appreciate what the Council enacted that we asked for. And keep moving forward our recommendations that we still believe in.
- Janis Adler – we will thank the Council.
- Sharon moved to accept the PURB solid waste subcommittee recommendations. Tracy seconded and the vote was unanimous.

- Janis Adler - BES – PURB appreciates the .8% reduction and the planned audit, however we don't believe that non-core deliverable expenditures were removed and cannot therefore recommend approval of the increase. The PURB recommended an increase of only the rate of inflation rather than the 6.9%. Sharon moved to reject the BES rate increase. Charles Van Rossen seconded. The vote was 7 yes with Lila opposed.
- Janis Adler - Water – 12.9% increase; we asked for an improvement program to mitigate the rate increases. Part of the burden of the new requirements should be borne by the Water Bureau and not just customers. Lila moved to reject the rate increase. Mike seconded and the vote was unanimous.
- Lila Wickham – we are not going to come up with a specific percent. We wanted to come up with a model to develop a proper rate structure.

Agenda for June PURB

Bob Tomlinson will send out the agenda.

Public Comment

None

Adjournment

The meeting adjourned at 7:16 pm.

Next Meeting

The next PURB meeting will be held at 4:30 pm on Thursday June 17, 2010 in the Lovejoy Room of City Hall.

Minutes respectfully submitted by the Financial Planning Division, Office of Management & Finance.