



CITY OF PORTLAND

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From: Members of the Portland Utility Review Board

Subject: PURB Committee Recommendations for Utility Rate Hearing

Date: May 16, 2012

Solid Waste and Recycling

1. Solid Waste recommendation: Adoption of Proposed Rates

The PURB recommends the City Council adopt the proposed solid waste and recycling rate increase of 4.2 % for FY 2012-2013.

Background

Although rates are set to increase, this recommendation is based on the fact that the projected rates have remained stable with respect to inflation over the past 20 year period. This has occurred despite the introduction of recent programs such as the Clean Fleet Policy and the curbside food scrap recycling program, which have placed upward pressure on rates.

2. Solid Waste recommendation: Franchise Agreement Revision

The PURB recommends that the PURB participate in the upcoming Franchise Agreement mid-term review in order to: (1) secure an earlier due date for franchisee Detailed Cost Reports; and (2) establish substantive and timing requirements for the provision of rate promulgation data to the PURB.

Substantive requests for data provided to the PURB will include, at a minimum: background recycling revenues, inflation factors and operating margins. The cutoff date for this data will coincide with the end of the calendar year (i.e. all data will be subject to the same cutoff date as information provided in the Detailed Cost Report). The PURB also will request comparable rate information from other jurisdictions within the Portland metro region showing current and historic rates from the previous five years for the following rate factors: inflation, tip fees, franchise fees, recycling revenues and hauler operating margins.

An Equal Opportunity Employer

To help ensure equal access to programs, services and activities, the Office of Management & Finance will reasonably modify policies/procedures and provide auxiliary aids/services to persons with disabilities upon request.

Background

The goal of this recommendation is to establish proposed rates in time to provide the PURB with at least one month to review the relevant data and proposed rates prior to making its recommendation.

A continuing issue has been the PURB's inability to make the best-considered recommendations regarding residential solid waste rates because it doesn't get information in a timely matter. This year, some delay was caused by a desire to have as much data as possible about the new food scrap recycling program before proposing rates. Nonetheless, the current Franchise Agreement provides that haulers are not required to submit Detailed Cost Reports until March. By the time those reports were reviewed, and additional data were considered, draft rates weren't available to the PURB Solid Waste Committee until April 30, and to the PURB at large until May 10th.

The haulers' Franchise Agreement is scheduled for a mid-term review this month, which represents a great opportunity to change the franchise rate methodology and rectify this problem.

3. Solid Waste recommendation: Clean Fleet Policy Revision

The PURB strongly recommends that the city adopt the pending proposal to relax the scheduled implementation of the Clean Fleet policy in order to minimize the policy's disproportionate impact on ratepayers.

Background

The bulk of this year's proposed rate increase (75%) is due to the "Clean Fleet" policy adopted by the City in 2008. While the PURB supports the green goals of this policy, its implementation seems to ensure perpetual operating cost increases with related increases in household solid waste and recycling rates. The Solid Waste and Recycling group of BPS has drafted a proposal to relax the fleet upgrade schedule to reduce, in part, the impact of this policy on residential rates.

Sewer /Stormwater

1. Sewer recommendation: Rate Adoption

The PURB recommends that City Council adopt the Bureau of Environmental Services (BES) budget including the 5.9% requested rate increase. We feel it is necessary to maintain existing infrastructure and provide capacity for critical issues that may arise in the coming year. The PURB also recommends that should Council direct BES to make cuts to their budget, those cuts be made in such a way as to not have significant impacts on programmatic operations. Examples of such cuts might include those cuts already identified by staff as projects that were already complete or postponed to future budget cycles due to timing issues.

In light of Mayor Adams' proposed budget and the revised budget request of BES, the PURB has modified its recommendation and supports a rate increase of 5.4%.

Supporting Rationale

Two members of the PURB Sewer Committee endorsed the budget recommendation of the BES Budget Advisory Committee (BAC). The BES Committee subsequently makes our recommendations regarding the 2013 BES budget, based upon the BAC recommendation.

In summary, the BAC recommendations are as follows:

- Council not focus on a specific rate target below 6.4% but rather take only cuts that were identified by staff as projects that were already complete, postponed to future budget cycles due to timing issues, or which would not have significant impacts on programmatic operations. We believe that many of the cuts being considered, especially those associated

with a 5.5% rate increase, could have a significant negative impact on mission-critical objectives. In fact, there is a considerable backlog of maintenance work that could justify a rate increase of greater than 6.4%. One of the significant factors that played into our deliberations was the benefit to the ratepayer relative to the potential impacts to the sewer and stormwater systems.

- We (the BAC) would also note that this year's budget process allowed only for cuts and prohibited the inclusion of any add packages. This approach results in a stagnant budget in which critical new priorities cannot be incorporated. Regardless of where the rates are set, the BAC believes that it is important to consider both cut and add packages to ensure that use of available rates is optimized.

Water

1. Water Recommendation: Monthly Billing

As the cost of implementing the Monthly program, as originally outlined by the Water Bureau in the FY 2012-13 Requested Budget, will impact rates by 2% in addition to multiple year rate increases and the lack of significant benefit, the PURB does not support the implementation of this program.

Given that the bureau has modified the project scope (opt in rather than mandatory and ebilling rather than paper billing for participants) which has reduced costs of the program to the equivalent of a 0.2% rate increase, the PURB no longer objects to implementing monthly billing.

Background

The billing change could provide some relief to customers in managing cash flow; however, the program does not provide substantial benefit to either the Water Bureau or the customer. Meters will continue to be read on the current cycle and the data will be averaged over a period to produce a monthly charge.

Future events such the end of the deferred rate catch ups or ultimately the implementation of a computerized monthly read systems offer points in time when this approach could perhaps be implemented. Alternatively consideration might well be given to a program for monthly billing that requires those ratepayers using the service to bear the cost either through a stated charge (as often done by insurance companies) or through a percentage charge (similar to property tax billing).

2. Water Recommendation: Rate Adoption

PURB does not support the 11% rate increase as per the Water Bureau's FY 2012-13 Requested Budget based on the inclusion of the new monthly billing program. The PURB believes that the program should be removed or delayed and that the rate increase should be closer to 9%.

Now that the bureau has modified the most expensive components to the monthly billing program as well as made additional budgetary adjustments, the PURB now endorses the Water Bureau's revised rate increase of 8.1%.

3. Water Recommendation: Base Charges

The bureau's Budget Advisory Committee and PURB recommend that the City undertake a phased transition to the standard cost of service formula for the base charge.

4. Water Recommendation: Schedule Adjustments of the LT2 Requirement

The proposed schedule adjustment was sent to the Oregon Health Authority on February 10, 2012 after review by the Budget Advisory Committee. The PURB supports this adjusted schedule.

Background

The schedule adjustment would give the Water Bureau seven more years to comply with the LT2 rule and allow the Water Bureau to sequence a key set of projects necessary for LT2 compliance. These project substantially reduce the risk of supply interruption posed by the simultaneous implementation of many projects that was necessary to reach the original compliance schedule. This schedule adjustment will also allow the Water Bureau to create a rate schedule that more gradually incorporates project costs for ratepayers during the current difficult economy. It has lowered the CIP by \$100M

PURB observations and concerns regarding the Water budget

- **Water Revenue/Decreasing Usage - Operational Efficiency**
Revenue projections from commercial, residential, and contracted sales have a direct effect on the water rates. A revenue projection that experiences a significant shortfall increases the cost per unit sold and thus requires a higher rate. Given decreasing water usage, there is a need to strategically develop an approach to covering operating costs without incurring multiple year rate increases to adjust for the revenue projections.

One approach might be to compare and analyze current operational practices with a variety of industry practices that could yield a new approach.

- **CIP Reporting**
As a result of Council's recommendations, the adoption of the new CIP reporting format as a result of a PURB suggested budget note has proceeded well and helps in understanding all the City's programs. One addition that PURB recommends be included in the CIP entries for each specific project is an express statement of any emergency preparedness component for the project. This will help the city advisory committees and the public understand the some of the prioritization that occurs with the CIP.