

# Independent Utility Commission

## Improving the Financial Oversight of City Utilities



Dan Saltzman • City of Portland Oregon  
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## **Problem Statements**

### **City Auditor's Report on Spending Utility Ratepayer Money**

March 2011

- City Council decisions on spending ratepayer money are not always transparent or directly linked to water and sewer services.
- Some spending items were adopted through the complete budget process, but ratepayer benefits and costs are not clear.
- Some spending did not follow the complete financial planning and budget process, and it is not clear how these items are directly related to utilities.
- Utility license fee is not identified on the customer bill.



## **Problem Statements**

### **Red Oak Study on Utility Rate Approval Process**

April 2011

- City Council budget process locks in rate increases before PURB completes its review and reports out recommendations
- Inadequate time for PURB and public review and comment once the Mayor's proposed budget is released
- City Council adds or revises budget items late in the budget process without PURB and public review and comment
- Mid-year budget adjustments do not receive adequate PURB and public review
- City Council makes budget deals outside of the public process



## Goals for Independent Utility Oversight

- Ensure that ratepayer money is spent appropriately.
- Give independent, impartial citizens an unprecedented high-level of authority and oversight over rates that impact all Portland businesses and residents.
- Make meaningful reforms within the limitations of existing City Charter and state law.
- Implement reforms before the next round of utility budgeting and ratemaking in 2012.

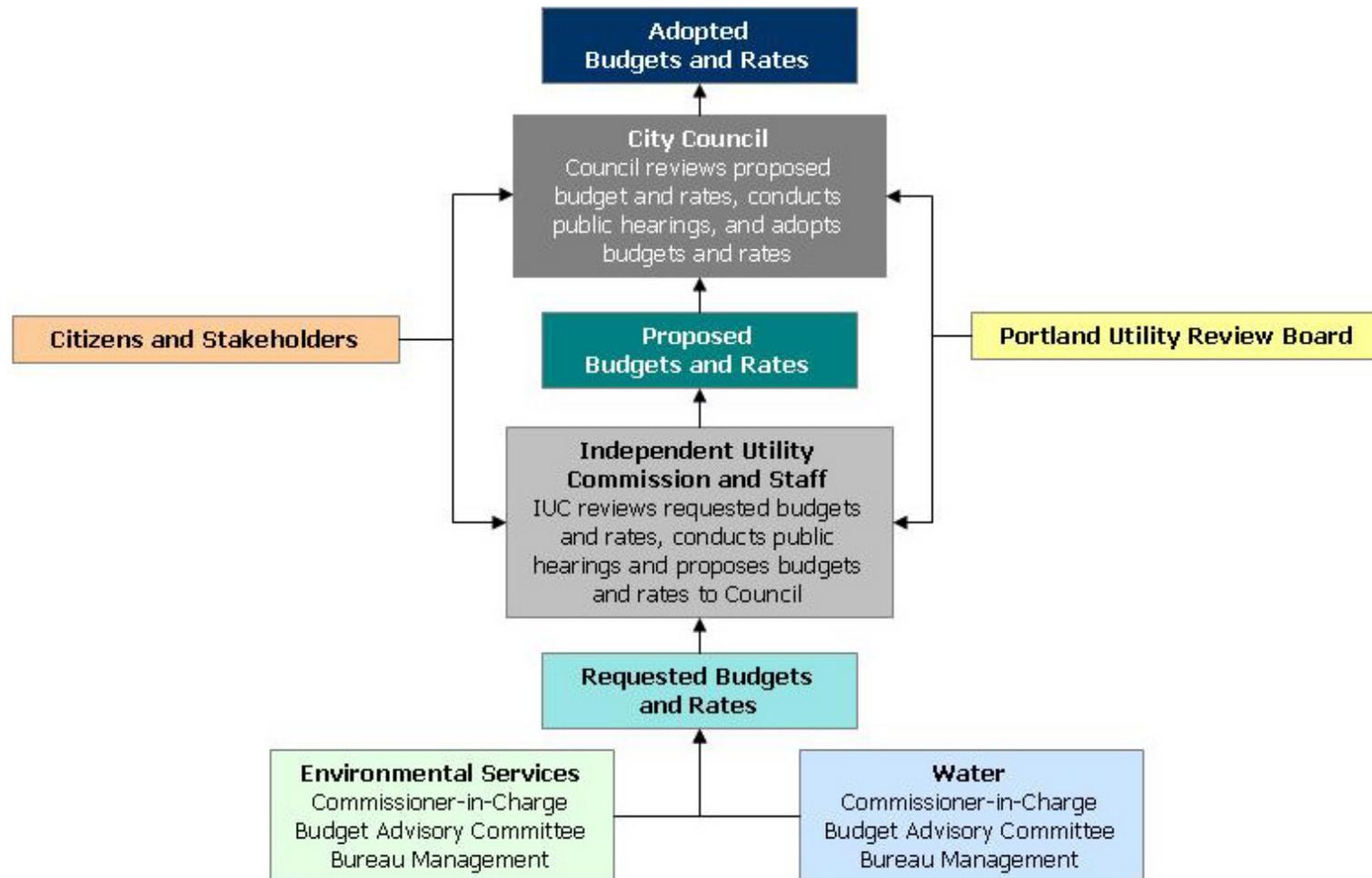


## Summary of Proposed Reforms

- Establish an independent commission of utility experts to propose utility budgets and rates
- Empower the Independent Utility Commission with additional powers to review long-term financial plans, utility expenditures, performance measures, ratemaking methodologies, and new program and service proposals.
- Provide expert professional staff to support the Commission's mission and implement Commission work plans.
- House the Commission and staff in the Office of the City Auditor to ensure independence from the City Council.
- Frame and focus the Commission's work to comply with guiding principles adopted by City Council.
- Retain the Portland Utility Review Board and Budget Advisory Committees to ensure appropriate and effective engagement by utility stakeholders and ratepayers.
- Retain the City Council's ultimate decision-making authority for utility budgets and rates in accordance with state law.



## Proposed Budget and Ratemaking Flow Chart





## **Independent Utility Commission - Mission and Responsibilities**

- Monitor, review and make recommendations to the City Council regarding City water, wastewater and stormwater utility finances, budgets, expenditures, and operations.
- Review and conduct public hearings on annual budgets and rates, requested by City utility bureaus.
- Submit proposed utility budgets to the City Budget Officer for submission in the City's annual budget process, and propose annual utility rates to the City Council.
- Review and make recommendations to City Council regarding requests for supplemental budgets, increases in rates or charges, the introduction of new rates, and requests to sell bonds or incur other financial obligations relating to utility services.
- Review utility expenditures to ensure consistency with sound utility practice and fidelity to utility missions as authorized or required by Charter, Code, ordinance, regulation, permit, City Council-adopted plan or other legal obligation of the utility. Guard against the use of utility resources for unauthorized purposes not related to the missions of the City utilities.



## **Independent Utility Commission - Mission and Responsibilities (continued)**

- Submit an annual report to City Council of its activities, including findings and recommendations regarding utility financing, management and performance.
- Monitor and review utility expenditures to determine if they reflect the guiding principles of financial oversight established by City Council.
- Report to City Council any occurrence where the Commission determines that plans, proposals or expenditures of utility resources are unauthorized. Recommend remedies to prevent the misuse of utility resources or to recover unauthorized expenditures of utility resources.



## Independent Utility Commission - Decision-Making Principles

- Utility budgets and rates are sufficient to conduct all necessary and appropriate operations consistent with sound utility practices, including but not limited to operations adequate to ensure compliance with legal and regulatory requirements, bond covenants, contracts, operational permits, and other requirements of federal and state law, City Charter, City Code and general ordinance.
- Utility rates are fair and equitable, set to generate sufficient revenue to fund proposed budgets, and calculated using generally-accepted ratemaking practices.
- Utility budgets and financial plans promote efficiency and effectiveness, advance long-term City sustainability and watershed management goals, and are the product of an asset-management approach to utility operations, maintenance and investments.
- Utility bureau credit ratings are maintained or enhanced by carefully managing the level of reserves, debt structure, debt service coverage and employing other prudent financial management strategies as deemed necessary to protect the long-term financial health of the utilities.



## **Independent Utility Commission - Decision-Making Principles (continued)**

- Utility expenditures are limited to utility services, programs, operations, maintenance and capital improvements consistent with sound utility practices and compliant with the legal and regulatory requirements of the utilities.
- Utility budgets and rates provide reductions or discounts for low income residential ratepayers to the extent deemed by City Council to be legally permissible and financially fair and sustainable.
- Utility budgets and rates are prepared, reviewed, heard and adopted in a timely manner to ensure the uninterrupted delivery of utility services from one fiscal year to the next.



## Organization of the Independent Utility Commission

- At least three Commission members have professional training and expertise in municipal finance and accounting, utility finance and ratemaking, utility economics, debt management, performance and financial auditing, or other financial management discipline.
- At least one Commission member has experience as a utility consumer or ratepayer advocate.
- Members are not current employees of the City.
- Members serve without compensation.
- The Commission has access to all utility records and employees and receives full cooperation from City and utility staff in the conduct of its responsibilities.



## **Independent Utility Commission - Budget and Staffing**

- The City appropriates sufficient resources for the work of the Independent Utility Commission, including resources for utility and financial expertise, support services, and associated overhead and indirect costs of the City Auditor's office.
- The total annual budget of the Commission is limited to 1/10 of 1% of total budget expenditures of the utility operating funds in the same fiscal year – less than \$500,000 based on FY 2010-2011 budgets.
- Costs of the Commission are paid via annual interagency agreements between the City Auditor's Office and the Bureaus of Water and Environmental Services. Costs are allocated on an equal basis to each utility bureau.
- Commission staff include three professionals with training and experience in utility economics and ratemaking, municipal budgeting and financial planning, and administrative support of independent policy-making boards and commissions. Specific classifications and compensation are established by the Bureau of Human Resources in consultation with the City Auditor. The City Auditor serves as the hiring manager for the Commission.



## **Responsibilities of the City Auditor**

- The Independent Utility Commission and associated staff are located within the Office of the City Auditor to help ensure independence and objectivity in their work.
- The City Auditor files the Commission's proposed utility budgets and rates.
- The City Auditor's administrative responsibilities to the Commission do not constitute an endorsement by the City Auditor of the Commission's work or recommendations.
- Within three years of the formation of the Commission, the City Auditor, in consultation with the City Council and the Independent Utility Commission, issues a report on the structure, performance and effectiveness of the Commission.



## Public Outreach Efforts - Communications and Presentations

- The Independent Utility Commission proposal was sent to all City bureau directors.
- The proposal and supporting materials were posted on multiple social media to solicit comments and recommendations.
- Email notices were sent to Commissioner Saltzman's constituents.
- Presentations were made to the following groups:
  - BES Budget Advisory Committee
  - Elders in Action Government Relations Committee
  - Portland Business Association Lunch with Leaders
  - Portland Utility Review Board
  - Charter Review Commission (Independent Utility Commission Sub-Committee)
  - Small Business Advisory Council
  - East Portland Land Use and Transportation Committee
- Additional presentations were made to individuals upon request.
- Outreach efforts yielded 38 community responses, responses from bureau directors, and extensive questions from individual members of PURB.