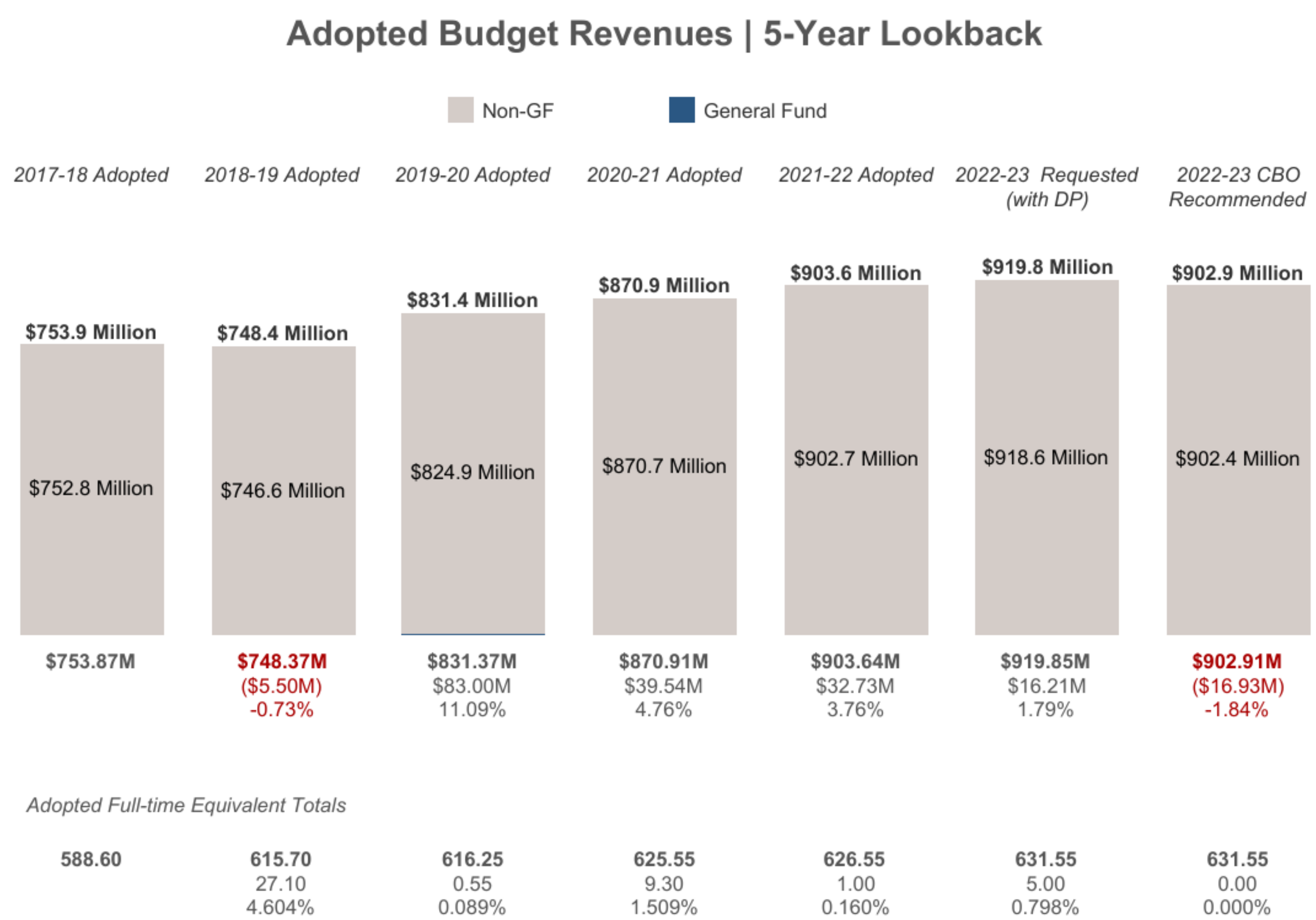
City Budget Office

Water Bureau

Analysis by Anthony Locke



INTRODUCTION

The Portland Water Bureau (PWB) submitted a Requested Budget totaling $920.5 million, which includes a Water Division base operating budget of $767.3 million and a Capital Improvement Plan (CIP) budget of $153.2 million. The bureau's requested budget proposes an average effective retail water rate increase of 7.7% which would result in a $3.72 increase in the typical residential monthly bill, raising from $48.39 to $52.11.

The bureau's five-year CIP is $1.68 billion, up $509 million from the previous year, due primarily to anticipated construction expenses on the Bull Run Filtration Project and Bull Run Pipelines in out years.

PWB also submitted a request for one-time General Fund resources totaling $745,000 to assess Reservoir 6 of the Mt Tabor Reservoirs. CBO does not recommend General Fund resources at this time.

BASE BUDGET & KEY ISSUES

Impacts to Rate Setting

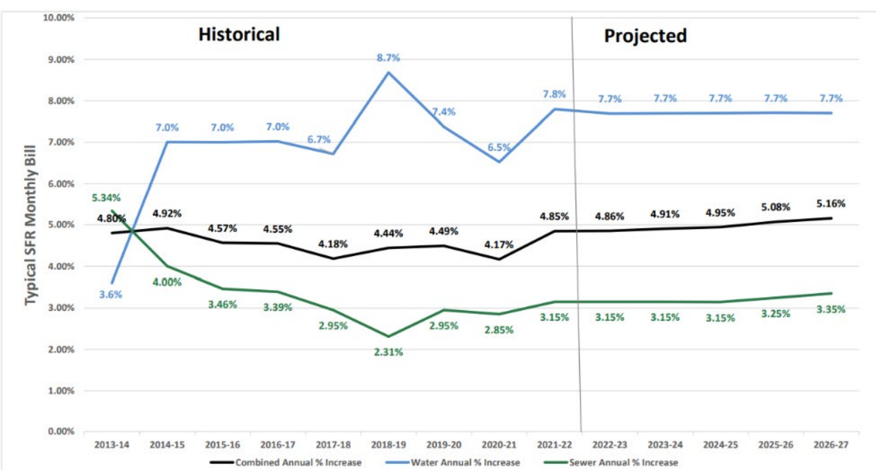
Alignment with Mayor's Guidance to Water & BES

The Mayor directed PWB to submit a budget that demonstrates good value at a fair price and ensuring affordability of services for customers most in need by prioritizing outreach regarding financial assistance. Along with this general guidance, the Mayor instructed PWB to build a budget in accordance with the rate forecast presented in the FY 2021-22 Adopted Budget and develop long term plans that prioritize rate stability and predictability.

Rate Overview

The bureau has requested a rate increase of 7.7% for the typical single-family household.[1] This means their bill would increase by an estimated $3.72 per month or $11.16 per quarter. When combined with the Bureau of Environmental Services' (BES) requested rate of increase of 3.15%, a typical single-family household would see a 4.86% increase for its combined monthly bill, adding $6.25 per month or $18.75 per quarter. This 7.7% rate increase is consistent with the FY 2021-22 Five-Year Financial Plan as outlined in the Mayor's guidance.

The table below highlights the BES and PWB historical and projected annual retail rate increase are heading in different directions due to each bureau taking on large capital projects at different times. BES completed their Big Pipe project while PWB is in process of implementing two significant projects – the Bull Run Treatment Projects – which includes the filtration plant, pipelines, and corrosion control – as well as the Willamette River crossing project.



Unlike previous CBO Budget reviews where the increased rates outpaced inflation, the 4.86% increase across water and sewer services does not keep up with the 7.7% increase in consumer price index (CPI-W) observed by the Bureau of Labor Statistics.[2] This has implications for PWB as they manage their own operating and capital costs, as this was the "largest over-the-year increase in the CPI-U for the West

[1] "Typical" is a reference to water use. A typical residential customer uses on average around 500 cubic feet (ccf) or 3,740 gallons of water every month.

[2] See Consumer Price Index, West Region — January 2022 : Western Information Office : U.S. Bureau of Labor Statistics (bls.gov) The CPI measure the average change in prices over time for a fixed set of goods and services. Water and stormwater services are not included in this measure, but it is helpful to see how current water/sewer/stormwater bills compare to other items. The 7.7% compares prices from January 2021 to January 2022.

Region since June 1982."[3]

If the 7.7% projected rate increase over the next five years holds steady, the typical single-family residential unit should expect to pay $70.11 in FY 2026-27, which would make a bill 35% higher than the expected bill of $52.11 in FY 2022-23. Issues of rate payer affordability are discussed later in this review.

The projected 7.7% rate increase is needed to support inflationary increases and the capital improvement program. According to the bureau, each percent of decrease to the projected 7.7% rate increase would result in operational impacts. A reduction of one percent to the rate increase would marginally decrease the monthly bill increase for a typical single family residential by $0.48 per month. However, the budget impact of this rate reduction translates to the following: $2 million reduction to operating expenses, removing $28 million of capital projects, or cutting 13.5 FTE positions.

Changes to Non-Capital Operating Expenditures in the Operating Fund

PWB's FY 2022-23 operating expenditures are estimated to increase by nine percent or $10.6 million to $128.5 million compared to the FY 2021-22 Revised Budget of $117.9 million. Personnel expenses are rising due to non-discretionary changes related to cost of living, merit increases, and from rising retirement and wage-driven taxes and benefits. The recent settlement with the District Council of Trade Unions (DCTU) is expected to generate additional ongoing costs that the bureau must cover through its rates. The bureau continues to use escalation factors provided by the City Economist to forecast future COLA and other inflationary increases. Regarding recent high inflation rates and supply chain issues, PWB does not expect these factors to impact their FY 2022-23 estimates.

The ten-year rate forecast table below shows us the primary drivers of the rate increase. The three primary drivers in FY 2022-23 are the Bull Run Treatment Projects, maintaining current service levels, and the impact of reduced demand (consumption forecasts).

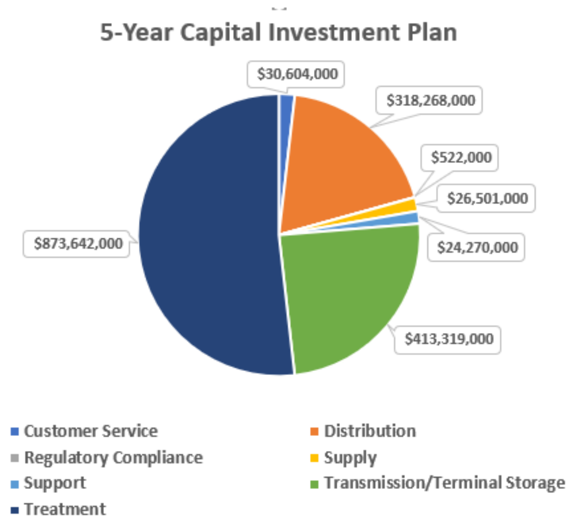
CIP Impact on Rates

The bureau's five-year FY 2022-27 Capital Improvement Plan (CIP) includes approximately $1.69 billion in water system investment needs. Focusing on FY 2022-23, the bureau's requested CIP budget totals $153.2 million.

	For Fiscal Year Ending in June of									
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Maintain Current Service Level	2.7%	2.4%	1.4%	2.3%	1.4%	2.7%	2.0%	2.7%	2.0%	2.7%
Operating Resource Needs	0.5%									
Demand Reduction	1.7%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Operating Fund Surplus	-1.1%									
Wholesale & Other Revenues Updates	0.2%	0.2%	0.1%		6.1%					
Bull Run Treatment Projects	3.9%	3.8%	3.8%	3.8%	3.8%	3.8%				
WIFIA Impact	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%	-1.1%	2.3%	2.3%	1.6%	0.1%
Capital Program	0.5%	1.5%	2.5%	2.1%	2.3%	3.5%	3.9%	2.7%	3.1%	1.2%
Rate Stabilization Account (RSA)	0.4%	0.7%	0.8%	0.4%	-5.0%	-1.4%	-0.7%	-0.2%	0.1%	0.4%
Rate Increase (Requested Budget)	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.7%	7.0%	4.6%

The most significant CIP investment falls within the Treatment Program which makes up 52% of the five-year total. The annual rate increase to fund the Bull Run Treatment Projects is 3.9% in FY 2022-23 with a subsequent year impact on rates at 3.8% through FY 2027-28, though this percentage is offset by the WIFIA impact line which reduces the project's impact to the rate by 1.1%. It is important to note that these percentages assume spending down all of the project's contingency. The most notable project in this portfolio is to build the Bull Run Filtration Plant to remove the microorganism Cryptosporidium and should be completed by September 2027 in order to comply with state and federal water quality rules.

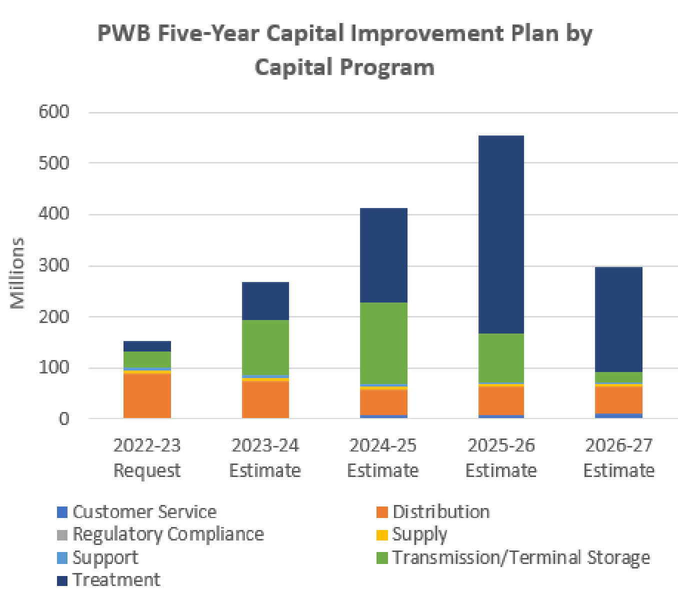
[3] Ibid.



The bureau's five-year capital plan totals $1.69 billion and includes several regulatory based projects, including the Bull Run Filtration and Pipelines, Corrosion Control, and Bull Run Dam 1 Spillway Gates projects. As noted in the table above, the bureau's CIP and related debt issuance is a prominent driver of water rate changes since debt is repaid through water rate revenues. The bureau's five-year CIP is $509 million higher than the prior year's requested budget – an increase primarily attributed to the Bull Run Filtration Project and the Bull Run Pipeline project which anticipates significant construction expenses in year three to five. Despite the notable increase in the five-year plan, retail water rates remain projected to be 7.7% annually through FY 2029-30.

While supply chain and inflation challenges are real, the CIP and finance plans factor in project contingency costs to allow for inflation. Final project estimates have included significant escalation for construction recently, which the bureau will monitor as bids are delivered. There are reports that construction contract bids are coming in up to 40% higher than initial projections due to the challenging and competitive pandemic conditions. The bureau does take short-term inflation into account, though it is seeing costs increase above inflation, which puts pressure on the rates. Supply chain challenges create scarcity issues related to construction material and labor costs. If inflation persists, it may require the bureau to re-program their portfolio as part of future budget request cycles.

What follows is a summary of the most notable projects within the five-year CIP.



Customer Service: The bureau plans to spend $30.3 million over the next five years on projects related to customer service, most notably to begin implementing the Advanced Metering Infrastructure (AMI) in partnership with BES.[4] This project is expected to finish implementation over the next seven years.[5] AMI is a system of water meters, communication technology and data management systems that enable two-way communication between meters and utilities. The system allows an employee in the office to receive a read from the meter whenever it is needed, without a staff person having to physically retrieve the read. This means the bureau will have the ability to bill monthly rather than quarterly once the project is completed. AMI

[4] Both BES and PWB have updated their five-year CIP to include the AMI project, which split the funding 50% for a project projected to cost $90 million total. The $30.6 million number only refers to the numbers budgeted for the next five years.
[5] According to the bureau, following execution of the contract with the consultant, the project is estimated at 84 months; 24 months for Procurement, 12 months for Startup Phase, 4 months for Proof of Concept, and 44 months for Installation and

will also allow customers in their homes to know what their consumption and consumption patterns are, in amounts that are relatable to them, and at times of their choosing. Providing equitable access to data through an online portal will help the bureau and customers make better data-driven decisions. The bureau continues to actively engage with BIPOC, low-income, and disabled Portlanders for feedback.

Distribution: The bureau plans to spend $318.3 million over the next five years on projects related to distribution, most notably projecting $228.7 million for Distribution Mains with most of the expenses coming in years three to five. The bureau anticipates construction starting for the Willamette River Crossing, the largest among this set of projects for $68.6 million across five years, with anticipated expenses of $38.8 million in FY 2022-23 to begin construction in the summer of 2022. This project adds a new pipeline that improves seismic resilience and will provide a reliable transmission link between Powell Butte and the service areas West of the Willamette River, including the storage reservoirs at Washington Park and downtown Portland.

Transmission/Terminal Storage: The bureau plans to spend $413.3 million on projects related to transmission and storage, most notably projecting $333.2 million for the Bull Run Pipelines with most of the expense coming in years three to five. The Bull Run Pipelines will connect the new Bull Run filtration facility to existing conduits. Surface improvement work also continues at Washington Park Reservoir 3 to finish grading, landscaping, fencing, interpretive displays, and a reflecting pool.

Treatment:

***Filtration Facility**:* The bureau plans to spend $873.6 million on projects related to treatment, most notably projecting most of the expenses coming in years three to five. The main reason why the bureau's Five-Year CIP increased $509 million compared to FY 2021-22 is due to the significant construction costs in the last three years of the plan. The project is currently projected at "low" confidence.

Improved Corrosion Control Treatment: ICCT falls under the Treatment umbrella. This project will be operational in FY 2021-22 and will further adjust the chemistry of Portland's water, reducing potential levels of lead at the tap in older homes that still contain lead solder. The bureau plans to continue with twice a year regulatory sampling at high-risk homes. If lead levels are reduced sufficiently, the testing timeline will move to once a year and then to every three years if additional milestones are achieved. The bureau has included the operation of the facility of $1.8 million in the FY 2022-23 Requested Budget.

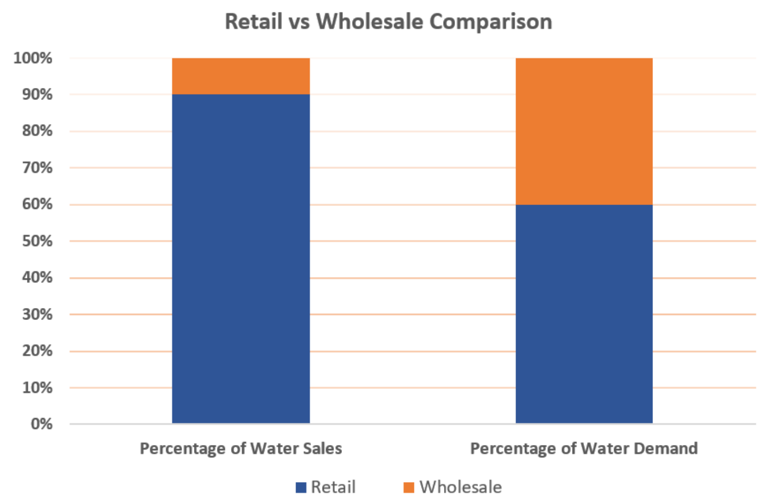
Water Infrastructure Financing and Innovation Act (WIFIA): The bureau secured a fixed low-interest loan of $727 million from WIFIA to mitigate the increase of the Bull Run Treatment Project on rates. Based on the bureau's projections, the loan will provide at least $247 million of debt-service savings long term. Looking at the table on page 3, the WIFIA reduced the FY 2022-23 retail water rate increase by 110 basis points from 8.8% to 7.7%. There is a scheduled $32.5 million WIFIA loan draw planned for October 2022 to fund a portion of this project along with Improved Corrosion Control Treatment. As previous CBO reviews cite, while taking the WIFIA loan lowered the bureau's credit rating with Moody from AAA to AA1, there is no anticipated material risk for the bureau to secure low-interest financing for other capital projects.[6] The bureau also plans to draw on the Rate Stabilization Account (RSA) to help offset the project's expenses in FY 2026-27.

The WIFIA financing includes a 50% contingency on the total eligible project costs. This 50% contingency

Deployment.

[6] Cite PY review

for the Bull Run Treatment Projects is included in the rate forecast. The bureau has also included project specific inflationary costs and the aforementioned project contingency in the Five-Year CIP.



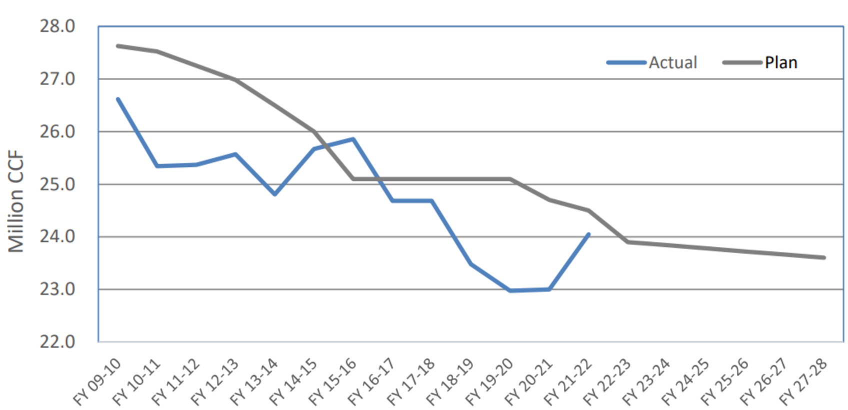
Customer Context

Approximately 60% of water delivered is provided to retail customers in the City. Retail customers have their water use regulated by meters of which the bureau purchases and replaces around 8,500 annually. The current meter system allows for retail customers to be billed quarterly. These customers will be affected by Advanced Metering Infrastructure (AMI) project that PWB and BES are partnering together on which will be expounded on later in the report.

Approximately 40 percent of water delivered is provided on a wholesale contract basis to 19 cities, special districts, and private water company customers outside of Portland. Seventeen out of nineteen Regional Water Sale Agreements end June 30, 2026. A five-year non-renewal notice is required to terminate the agreement and notices have gone out in anticipation of this deadline. The bureau anticipates three customers will not sign a new agreement in FY 2026-27: Tualatin Valley Water District, Rockwood Water People's Utility District, and the City of Gresham as these entities are developing a separate water supply source. In the meantime, the Bureau retained the consulting services of FCS Group to help develop new Regional Water Sales agreements.

The loss of TVWD, Rockwood PUD, and the City of Gresham, the three largest wholesale customers at the moment, will have an impact on the budget in FY 2026-27 (See table above). "The Wholesale & Other Revenues Updates" row shows that much of the 7.7% projected rate increase in FY 2026-27 will be to help cover the loss of wholesale revenue. The bureau plans to draw on its Rate Stabilization Account (RSA) to help smooth out the overall effect on rates to keep it at 7.7%, noted by the -5.0%, or a projected loss of 72.8% of revenue in wholesale water sales.[7]

Figure 5 – Retail Water Demand Forecast & Actual



Water Demand

Water demand projections remain an essential component to setting water rates. Demand for water in the City of Portland aligns with broader national trends – the bureau projects a slow decline in water use. This is primarily attributed to more efficient fixturing and updated building and plumbing regulation. There is a corresponding revenue loss when customers purchase less water – the bureau determines the fixed costs to operate the utility while fewer units are sold. Data shows that water demand was already dropping before the pandemic, held steady for a year, and a notable increase in FY

[7] See Figure A5 in PWB's requested budget document.

2021-22. The bureau attributes some of the demand recovery to public health response to the pandemic, relaxed social distance measures to allow businesses to operate, and record-breaking heat in late-June 2021.

The bureau's retail water demand for FY 2020-21 was 23.0 million ccf, which was 1.7 million ccf below the plan. The bureau projected retail sales based on 24.5 million ccf in FY 2021-22, but, based on current year trends, now projects retail sales on 24.0 million ccf. The bureau plans to reduce its retail demand forecast beginning in FY 2022-23 from 24.5 to 23.9 million ccf and gradual reduction of 0.25% each subsequent year. The impact of these adjusted projection on rates can be seen on Figure 2, page 3, row 3 "Demand Reduction." As noted in the ten-year rate forecast, demand reduction accounts for 170 basis points against the proposed 7.7% water rate increase in FY 2022-23 with subsequent impact reflected in the estimate 0.25% projected demand decline each year. These changes align with City Financial Management Policy which requires revenue estimates to be prepared conservatively.

Affordability

Moratorium

The bureau took three measures at the beginning of pandemic (March 2020) to ensure that water bills was not added to a growing list of public health and economic concerns. They discontinued the assessment of late fees on all accounts past due in March 2020, suspended disconnecting water service for delinquent accounts, and suspended the assignment of balances from final billed accounts to a collection agency. As the number of accounts and their balances in arrears have grown, the bureau has taken steps to return to a more conventional debt recovery process. The bureau began to manually encourage and remind customers that they had outstanding balances in the Fall of 2020 and Winter of 2021, then resumed sending balances from final billed accounts to a collection agency in May 2021. Calls have resumed through an auto-dialer in the Fall of 2021.

The bureau has resumed applying late fees and disconnecting water service for Commercial customers who have not paid or made arrangements to pay their outstanding balance, and will apply the same process to residential single-family or multi-family accounts over time. The resumption of late fees applies to any Commercial account with a balance greater than $115. The resumption of Pre-Shutoff and Shutoff fees currently applies to any Commercial account with a balance greater than $3,000 of which there are about 300 at this time.

The bureau had also temporarily relaxed income verification requirements to qualify customers for the Financial Assistance program due to the decrease in employment and difficulty customers had in accessing accurate income documentation. Those verifications resumed in October 2020 once customers were able to acquire reporting on unemployment verifications.

Affordability Programs

The Federal guidance on water bill affordability ranges from 1.0 percent to 3.5 percent of median household income. The bureau continues to offer many financial assistance programs to Portland's low-income residents. Low-income services include tier one and tier two bill discounts for income-eligible accounts, one-time crisis vouchers for income-eligible account, and multi-family crisis assistance,[8] utility safety net Program, leak repair assistance,[9] and interest-free flexible payment plans. The FY 2022-23

[8] Through December 2021, the bureau has issued 1,409 crisis vouchers.

[9] This program saw a budget increase from $90,000 to $250,000 in FY 2021-22.

Requested Budget includes two part time casual Community Service Aides to further support affordability outreach for the financial assistance and affordability engagement programs.

Tier 1 Discount

	Two-person	Four-person
Monthly income threshold	$ 3,870	$ 4,835
Typical monthly discounted bill	$ 24.20	$ 24.20
Percent of income	0.6%	0.5%

Tier 2 Discount

	Two-person	Four-person
Monthly income threshold	$ 1,933	$ 2,417
Typical monthly discounted bill	$ 9.69	$ 9.69
Percent of income	0.5%	0.4%

The table on the left shows the income thresholds to qualify for a discount for a two- and four-person household for each respective tier. The bureau's commitment to the water bill affordability federal guideline can be seen in the "Percent of income" row. Every customer receiving a Tier 1 discount means the bureau foregoes approximately $313 in revenue. Every customer receiving a Tier 2 discount means the bureau foregoes approximately $500 in revenue. As of December 2021, there are 8,040 customers participating in the two-tiered financial assistance program with 4,513 qualifying for the Tier 1 discount and 3,527 qualifying for the Tier 2 discount. Given that there are 187,400 retail accounts, Tier 1 makes up 2.4% and Tier 2 makes up 1.9% of the customer base.

While it is difficult to gauge the exact impact of community outreach to individuals or families who use all the bureau's financial assistance services, CBO highlights a notable improvement in performance measure WA_0107 which measures the percentage of community members who, in a statistically significant survey, say they have "good" or "very good" awareness of the services the bureau provides. In FY 2019-20, 54% of community members rated their awareness of the bureau's services as "good" or "very good" but that number jumped to 89% in FY 2020-21. The bureau attributes greater success in outreach to three things: (1) more investment in social media outreach and proactive media engagement, (2) community outreach accompanying the Bull Run Treatment Projects, Washington Park Reservoirs, Willamette River Crossing, and other capital projects, and (3) improving communication in outreach endeavors such as using plain language, graphics, and video production.

Monthly Bill Categories	FY 2021-22	FY 2022-23	Change
5 ccf Tier 2 Low-Income Residential Monthly Bill (80% discount)	$9.69	$10.43	$0.74
5 ccf Tier 1 Low-Income Residential Monthly Bill (50% discount)	$24.20	$26.06	$1.85
5 ccf Typical Residential Monthly Bill	$48.39	$52.11	$3.72
100 ccf Medium Commercial Monthly Bill	$657.61	$708.22	$50.61
20,000 ccf Large Commercial Monthly Bill	$120,634.71	$129,918.92	$9,284.21

Financial assistance programs are presently funded through rate funds and the bureau continues to look for opportunities to diversify funding sources at the federal and state level to expand assistance without increasing water rates. While the pandemic has created challenges on other fronts for the bureau, it has also created opportunities to leverage resources beyond Portland to assist low-income residents. The bureau mentions two "exciting new innovations … in the next fiscal year" to assist an already robust suite of options.[10]

Leveraging Federal & State Relief Resources

PWB has actively sought resources to offset debt relief, partly as a result from the pandemic. The bureau has drawn from two resources of funding and plans to launch two programs in the first quarter of FY 2022-23. They also hope to benefit from a new State program in future budget cycles.

First, the bureau received a $500,000 one-time General Fund cash transfer to increase program expenses

[10] See Commissioner Mapp's closing comments here: https://youtu.be/zkdXJTUL4hU?t=23651

in the Water Operating Fund to help support a Utility Debt Relief Program.[11] This will help provide relief for customers apart from the pandemic, since ARPA dollars need to directly target COVID-19 impacted customers. Specifically, they intend to create a match program for small business and residential customers that leverages customer payments with those dollars to maximize the benefit of the funds to the community. The bureau estimates that they can assist 1,000 accounts, depending on the outstanding balance held by those utilizing the program. The bureau plans to utilize an equity committee to ensure that the funds are distributed to the most vulnerable populations affected by utility debt.

Second, the bureau has established the Afloat Program[12] that takes ARPA round one funds to provide utility relief to those with outstanding balances at risk of having their water shut off. PWB also requested $13.2 million in round two of ARPA relief after receiving $2.6 million in round one. The ARPA funds awarded by round one and requested in round two will create Afloat: Utility Debt Relief, which intends to deliver COVID-related debt relief held by low-income single-family households. The bureau estimates that the $2.6 million received in round one could help between 1,000-2,500 households depending on the outstanding balance held by each applicant.

The goal of both funding sources is to create a path for the bureau to distribute financial support in a manner that encourages customers to fully pay their outstanding account balances, or to make partial payments with a plan to pay their outstanding account balance over time. The bureau recognizes the fine line between program cost recovery and a window of opportunity to help those hit hardest by the pandemic. Therefore, the two debt relief programs are seen as complementing their existing strategy which includes interest-free, long-term payment arrangements, as well as a financial assistance program that includes bill discounts and crisis vouchers for their low-income residential customers. The bureau intends to clearly communicate to customers that ARPA and the match program are not long-term solutions as they slowly roll out their revenue recovery strategy mentioned above.

Third, PWB also anticipates benefitting from the Low-Income Household Water Assistance (LIHWA) Program administered by Oregon Housing and Community Services (OHCS) that provides low-income households[13] with assistance for their drinking water and wastewater service expenses. The LIHWA was established by Congress with OHCS designated as the State of Oregon's grantee. The programs received $13.8 million to provide LIHWA assistance to "benefit households with the lowest income and the highest water burden in relation to income."[14] These payments are provided on a first come first served basis to households receiving services from an eligible water and wastewater utility.[15] Assistance is expected to begin in May 2022, with payments going directly to PWB and BES.

[11] For more context, see the YouTube video in footnote 10 and Microsoft Word - Updated BMP Amendments 11.10 (portlandoregon.gov)
[12] For more information see Afloat: Utility Debt Relief | Portland.gov
[13] Low income is defined as a household who is at or below 60% state median income. For more information, see the following link: Oregon Housing and Community Services : Low-Income Household Water Assistance Program : Energy & Weatherization (WX) : State of Oregon
[14] 08-09-2021-Draft-LIHWA-Program-Manual.pdf (oregon.gov)
[15] For more information on the LIHWA Program, click here: 08-09-2021-Draft-LIHWA-Program-Manual.pdf (oregon.gov) Ibid?

Citywide Performance Measures

Measure Title	FY 2016-17 Actuals	FY 2017-18 Actuals	FY 2018-19 Actuals	FY 2019-20 Actuals	FY 2020-21 Target	FY 2020-21 Actuals	FY 2021-22 Target	Strategic Target
Annual combined utility bill as a percent of median household income	2.42%	2.44%	2.40%	2.25%	2.27%	2.25%	0	N/A
Annual combined utility bill as a percent of the lowest quintile of household income	6.15%	6.03%	6.22%	5.81%	5.55%	5.81%	0	N/A
Annual combined utility bill with Tier 1 discount as a percent of the lowest quintile of household income	3.65%	3.53%	3.46%	3.18%	3.09%	3.18%	0	N/A
Annual combined utility bill with Tier 2 discount as a percent of the lowest quintile of household income	0.00%	2.03%	1.81%	1.67%	1.61%	1.67%	0	N/A
Annual combined utility bill with Tier 1 discount as a percent of the lowest quintile of single family residential household income	2.18%	1.99%	2.11%	2.02%	1.88%	2.02%	0	N/A
Annual combined utility bill with Tier 2 discount as a percent of the lowest quintile of single family residential household income	0.00%	1.14%	1.10%	1.06%	0.98%	1.06%	0	N/A

In partnership with BES, citywide performance measures on utility bill affordability were recently added during the FY 2021-22 budget development process. These measures calculate the annual combined utility bill as a percentage of various income levels (mostly the lowest quintile), household types (single family residential vs. all households), and discount levels (Tiers 1 and 2). Customers receiving a Tier 1 discount have their bill reduced by 50%, while Tier 2 customers receive an 80% discount. Data on actuals for the last two years and the estimate for the current year point towards slightly downward trends for all six of these new measures, which is an indication of positive performance. Targets for next year are not yet available as they are dependent on census data which is expected to be released in March of 2022.

The lowest quintile is the income level that 20% of households make less than, or 80% of households make more than. The utility bureaus selected the lowest quintile of income based on work conducted by national organizations such as the National Association of Clean Water Agencies and the Federal Environmental Protection Agency. One of the conclusions from the data is that customers who receive bill discounts end up paying percentages of their income very similar to the median household. This means that, when accessed, the City's financial assistance programs are helping low-income households pay their utility costs at roughly the same percent as higher-income households.

It is critical to determine the most effective ways to expand accessibility of the program, as the customers in the lowest quintile of income who cannot access financial assistance are paying twice the percent of their income as the median household. These customers are either unaware of the financial assistance program or are ineligible to access it based on current program constructs. Potentially eligible participants could be living in multifamily housing with units on a single meter, paying rent but not utilities. The City does have a voucher program for households living in multifamily housing which is administered by Home Forward, but customers may not be aware of its existence, resulting in lower utilization of the vouchers. Home Forward's Short Term Rental Assistance (STRA) program contracts with 19 agencies, many of whom are culturally specific. STRA's approach is to offer wrap around services to their clients, and they have found this to be more effective than just paying client's bills. In order to receive the voucher, their client must be under case management. CBO recommends the utility bureaus continue to promote this program in order to further access in communities with the greatest need for affordability and payment relief. To this end, the bureau has been providing monthly newsletters as well as translated resources that were posted online late last calendar year. Together with the BES and the Portland Housing Bureau, PWB is working on extending Tier 1 financial assistance to multi-family dwelling units that are approved for Non-Profit Limited Tax Exemption (NPLTE).

DECISION PACKAGES

Mt Tabor Reservoirs – Dam Safety

DP_12992, $745,000, 0.00 FTE

Request Summary

This request is for $745,000 to determine the extent of voids[16] in Reservoir 6 on Mt Tabor through a full Ground Penetrating Radar investigation and identify the issues needed to complete repairs as well as conduct an updated seismic stability analysis. Completion of this work would allow for further cost estimates to be made to fix the reservoir in order to be filled with clean water per Resolution No. 37146.

CBO Analysis

In July 2015, the Portland City Council directed the Water Bureau to work with the Mount Tabor Neighborhood Association (MTNA) to manage the water in the Mount Tabor open reservoirs. Before 2016, the reservoirs were connected and used as part of Portland's potable water system.[17] By disconnecting the reservoirs from Portland's potable water system, PWB could no longer use rate payer funds on programs or services "unrelated to the provision of water and sewer services" so future investments would come from the General Fund.[18] The City of Portland committed and spent $4 million of General Fund for maintenance, repair, and preservation work at the Mount Tabor Reservoirs as outlined in the Mount Tabor Reservoirs Historic Structures Report during FY 2016-17 to FY 2020-21.[19] The $4 million is explicitly laid out in Resolution No. 37146[20] and represents the only formal financial commitment in the document.

Reservoir 6 is maintained for aesthetic purposes after the reservoir was disconnected from the drinking water system per the resolution. However, the reservoir does still need to be evaluated on periodic basis in order to hold water. The reservoir is currently empty due to voids that were found during an inspection in the summer of 2021. This is a General Fund request because of the Anderson lawsuit which states rate payer funds can only be used for drinking water expenses.

The bureau states that there is no danger to the community in holding off on repairs so long as the reservoir remains empty. If the reservoir was filled with water without further work, it could erode and consequently destabilize an earthen dam along SE 60th Avenue.[21] Furthermore, Resolution No. 37146 says that "barring unforeseen circumstances, the City will ensure that three out of the four reservoir basins will be kept full while the fourth is being drained, cleaned and refilled." The results surfaced by the ground penetrating radar (GPR) appear to be sufficient grounds to leave the reservoir empty for now.

There is a broader conversation on any plans to repurpose these dams. Public conversation on the dams

[16] A void is a technical term for hole. A number of voids have been discovered under the reservoir slab using ground penetrating radar. These voids have been verified through field borings.

[17] The reservoirs were disconnected because "the U.S. Environmental Protections Agency passed a new federal drinking water rule in 2006 that requires water utilities that store treated water in open reservoirs to either cover the reservoir or treat the reservoir discharge." council-resolution-mt-tabor.pdf (portland.gov)

[18] This language came from a presentation by the City Attorney's Office to the Portland Utility Board: 668793 (portlandoregon.gov)

[19] For the full Mount Tabor Reservoirs Historic Structures Report, click here: MT (portland.gov)

[20] For more information on the conversation surrounding the resolution, see the following links: https://efiles.portlandoregon.gov/Record/8520102/file/document, https://youtu.be/vSpXJ7lGntg?t=1545

[21] For more information on potential consequences of filling the reservoir without making necessary repairs, see the section "*Why keep Reservoir 6 empty?*" at the following link: Mount Tabor Reservoirs Management | Portland.gov

since at least 2015 highlight the primary purpose for maintaining any water in the infrastructure is to serve an aesthetic function, benefiting the immediate neighborhood residents and visitors. There's no business case evaluation submitted with this project as it did not come through the Capital Set-Aside process and the primary reason for the request is tied to the language of Resolution No. 37146 requiring the reservoir fill levels. CBO recommends that the bureau provide a lifecycle assessment for the project to help Council determine what kind of future resources should be invested in this project, and this includes options to either divest fully or to transfer ownership to the Parks Bureau recognizing this infrastructure is no longer servicing the Portland Water Bureau mission to deliver drinking water to the community.

Due to the lack of available one-time General Fund resources this year, CBO does not recommend we fund this decision package at this time. Additionally, CBO notes an on-going concern with the agreement currently in place.

This agreement commits significant and unpredictable General Fund resources to on-going maintenance of a project that, while aesthetically beneficial to the community, will continue to demand resources. This seems to violate FIN-2.03 on Financial Planning which requires the city to "plan for the types and levels of investment necessary to ensure the sustained and equitable delivery of public services to the residents, businesses, visors, and customers of the City."[22] At this stage, the City is in an indefinite reactionary position to maintain the Mt Tabor reservoirs. Because these reservoirs are disconnected from the drinking water system, PWB does not apply its usual practices for other capital projects to this one such as conducting a Business Case Evaluation or scoping a five-year plan to maintain the Mt Tabor reservoirs. Five-year plans should "include reasonable cost assumptions for asset management needs over the planning period" as well as "clearly call out anticipated changes to service levels and funding not yet approved by City Council."[23] The only strategy available to address funding any expenses, much less the long-term funding gap to maintain this asset, is the General Fund which is currently constrained and anticipated to be limited in future years.

CBO Recommendation: $0 one-time| 0.00 FTE

SUMMARY OF REQUESTS AND RECOMMENDATIONS

Below is a summary of the Water Bureau's total budget.

[22] For more information on FIN-2.03, see the following link: FIN-2.03 - Financial Planning | Portland.gov
[23] Ibid.

SUMMARY OF REQUESTS & RECOMMENDATIONS (ALL FUNDS)

Portland Water Bureau

		2021-22 Adopted Budget	2022-23 Requested Base (A)	Bureau Decision Packages (B)	CBO Recommended Adjustments (C)	Total Recommended Budget (A+B+C)
Revenue	Miscellaneous	$5,459,019	$6,187,825	$0	$0	$6,187,825
	Intergovernmental	$605,000	$619,605	$16,300,000	($16,300,000)	$619,605
	Interagency Revenue	$4,848,671	$5,494,553	$0	$0	$5,494,553
	Fund Transfers - Revenue	$293,821,119	$293,201,359	$745,000	($745,000)	$293,201,359
	Charges for Services	$226,530,126	$239,025,408	$0	$0	$239,025,408
	Bond & Note Proceeds	$160,305,000	$122,755,000	$0	$0	$122,755,000
	Beginning Fund Balance	$212,068,247	$235,518,317	$0	$111,457	$235,629,774
Revenue	**Sum:**	**$903,637,182**	**$902,802,067**	**$17,045,000**	**($16,933,543)**	**$902,913,524**
Expense	Personnel	$89,209,914	$96,634,955	$0	$0	$96,634,955
	Internal Materials and Services	$24,003,401	$25,147,575	$0	$0	$25,147,575
	Fund Transfers - Expense	$299,386,848	$299,649,443	$0	$0	$299,649,443
	External Materials and Services	$55,694,458	$64,808,393	$17,045,000	($17,045,000)	$64,808,393
	Ending Fund Balance	$39,233,480	$40,457,483	$0	$0	$40,457,483
	Debt Service Reserves	$33,293,584	$38,769,584	$0	$0	$38,769,584
	Debt Service	$65,571,719	$69,862,177	$0	$0	$69,862,177
	Contingency	$190,348,914	$168,659,327	$0	$111,457	$168,770,784
	Capital Outlay	$106,894,864	$98,813,130	$0	$0	$98,813,130
Expense	**Sum:**	**$903,637,182**	**$902,802,067**	**$17,045,000**	**($16,933,543)**	**$902,913,524**