

Analysis By: Lisa Shaw

Bureau of Environmental Services

All Funds Budget Summary	Adopted FY 2012-13	Request Base FY 2013-14	Decision Pkgs FY 2013-14	Request Total FY 2013-14	Percent Change
Resources					
Beginning Fund Balance	111,957,500	100,062,000	-	100,062,000	-10.6%
Licenses & Permits	1,155,000	1,360,000	-	1,360,000	17.7%
Charges for Services	282,402,628	289,563,728	10,816,599	300,380,327	6.4%
Intergovernmental Revenues	2,385,828	1,817,872	-	1,817,872	-23.8%
Interagency Revenue	1,952,597	2,311,667	314,100	2,625,767	34.5%
Fund Transfers - Revenue	276,840,366	307,070,000	-	307,070,000	10.9%
Bond and Note Proceeds	217,000,000	225,650,000	-	225,650,000	4.0%
Miscellaneous Sources	1,247,500	1,440,000	-	1,440,000	15.4%
Total Resources	\$894,941,419	\$929,275,267	\$11,130,699	\$940,405,966	5.1%
Expenditures					
Personnel Services	57,851,989	58,782,554	3,650,696	62,433,250	7.9%
External Materials and Services	50,959,034	50,351,793	2,882,927	53,234,720	4.5%
Internal Materials and Services	41,061,148	36,854,636	5,124,522	41,979,158	2.2%
Capital Outlay	70,368,198	88,893,998	-	88,893,998	26.3%
Debt Service	151,786,222	156,539,679	-	156,539,679	3.1%
Fund Transfers - Expense	283,987,250	313,785,232	-	313,785,232	10.5%
Contingency	190,850,712	175,346,875	(527,446)	174,819,429	-8.4%
Unappropriated Fund Balance	48,076,866	48,720,500	-	48,720,500	1.3%
Total Requirements	\$894,941,419	\$929,275,267	\$11,130,699	\$940,405,966	5.1%
Total Bureau FTE	533.00	502.78	32.70	535.48	0.5%

Percent Change is the change from FY 2012-13 Adopted Budget to FY 2013-14 Total Requested Budget.

Key Issues

FY 2013-14 Rate Request for the Average Single Family Residence (SFR)

Base budget. The utility bureaus (Water and Environmental Services) were directed to engage in a budget exercise similar to that of the General Fund bureaus in terms of submitting 90% of their base budget and requesting the balance (10%) back in ranked decision packages. Specifically for the utility bureaus, this 90%/10% split applied only to their programmatic operating budgets as of the FY 2012-13 Adopted Budget, adjusted for inflation. The following items were excluded from the calculation: fund level items (such as debt service, fund level transfers and contingency, fund balance), CIP expenditures as well as non-rate operating revenues:

Base Budget Components	Amount
Program Budgets (Operating Funds CSL)	\$218.4 million
LESS rate-supported CIP	(\$94.4) million
PLUS inflation	\$4.9 million
LESS non-rate / non-CIP revenues	(\$9.8) million
LESS ULF Transfer	(\$13.5) million
Base Operating Budget	\$105.6 million

90% = \$95.0 million
10% = \$10.5 million

BES submitted a lower base budget of \$92.1 million rather than the required based budget calculated at \$95.0 million; the base reflects internal reductions of \$2.9 million. The bureau is only requesting to add back \$11.6 million (backing out a \$527,000 transfer from contingency) rather than the calculated \$10.5

million; however BES is also requesting a 7.85% rate increase to reach its current service level (CSL). This revised rate increase is significantly higher than the increase stated in the bureau's prior year financial plan, 5.9%, or the more recently revised rate increase of 6.5% resulting from the release of the *FY 2013 Sewer System Rate Study* in June 2012. (More discussion on the Rate Study is under the Key Issues - *Rate Development Approach* below.) Effectively, all of this means that BES submitted a base budget at 87% rather than the minimum required base of 90%, but requested a rate increase which is 1.95% higher (7.85% – 5.9%) to make up for lower revenue projections as well as higher costs.

A comparison of the previous and most recent Preliminary Financial Plans highlights the changes in planned rate increases. The current, FY 2014-18 Financial Plan indicates a requested 6.5% increase which would result in a monthly bill of \$63.44 for the average single family home. See below for a break-out over the forecast period:

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	4 Year average
FY 2013-17 Plan	5.90%	5.60%	5.60%	4.40%	n/a	5.38%
FY 2014-18 Plan	6.50%	5.10%	5.00%	4.75%	4.60%	5.34%
Forecasted Monthly Bill	\$ 63.44	\$ 66.68	\$ 70.01	\$ 73.34	\$ 76.71	\$ 68.37

Even though the planned FY 2013-14 rate increase of 6.5% is 0.60 basis points higher than what was projected previously, the bureau is projecting smaller increases in the next two years which keeps the four year average increase nearly the same between the two plans. If, on the other hand, all of the bureau's decision packages are approved by Council, the FY 2013-14 rate increase would be 7.85%. If everything else remains the same (including existing out-year forecasted rate increases), the average monthly bill for FY 2013-14 would become \$64.24, with four year average monthly bill of \$69.23 and four year average increase of 5.68%.

If none of the decision packages are approved, the rate increase for the base budget at 87% would be 4.5%. A breakdown of what is contributing to the base increase includes:

Average Single Family Monthly Bill - base rate increase components	% Impact	\$ Impact
Components	Current =	\$59.57
1. Decrease in transfer from Rate Stabilization Fund (RSF)	3.55%	\$2.11
2. New Debt Service	2.05%	\$1.22
3. Inflation	1.65%	\$0.98
4. Lower Residential Consumption	0.40%	\$0.24
5. Misc. offsets / non-rate revenue reductions	0.20%	\$0.12
Full Requested Budget	7.85%	\$4.67
LESS Decision Packages	(3.35%)	\$ (2.00)
Base Budget rate and monthly increase	4.50%	\$ 2.67

Revised Monthly Bill = **\$62.24**

The increased rate attributed to the decision packages, 3.35%, is due to the lack of Rate Stabilization Fund dollars available in FY 2013-14. When planning for and financing the CSO, the bureau specifically built up and then used the funds from the Rate Stabilization Fund in order to smooth out rate increases. This FY 2013-14 increase due to the RSF decrease had been planned. (A more detailed discussion of the RSF may be found in the FY 2012-13 and FY 2011-12 budget analyses).

In developing its base, BES has explained that several internal reductions had already been implemented. There are no decision packages to be reviewed, however, as these items were left off of the base development from the start. They reflect actions the bureau has taken to respond to reduced demand, which translates into reduced rate revenues. While BES took appropriate proactive action, this approach was not transparent. The BAC was not made aware of either the details surrounding the internal reductions to the base, nor the decision to request a 7.85% rate increase rather than 6.5% or 5.9%. There is not a discussion of either item in the bureau’s Requested Budget narrative. The CBO recommends that BES more clearly discuss internal budget reduction actions taken and any deviation from planned rate increases with future BACs and note these changes in budget narrative.

Decision package impact. Each decision package contains a combination of several items grouped into a theme as evidenced by the decision package title. The table below summarizes the amount, rate impact and average BAC ranking by package. The lower the rank a package received reflects the higher the BAC priority for adding back to the base.

Decision Packages (program level)	Amount	Rate % impact	Average BAC Rank
ES_01 Basic O & M	1,744,666	0.55%	1.5
ES_02 System Integrity	2,262,042	0.60%	2.2
ES_03 Watershed	1,783,126	0.45%	2.8
ES_04 Support for Others	5,340,865	1.60%	3.3
ES_05 OMF IAs	527,446	0.15%	Not ranked
Decision Package Totals	11,658,145	3.35%	
	Base increase	4.50%	
	FY 2013-14 Requested Budget	7.85%	

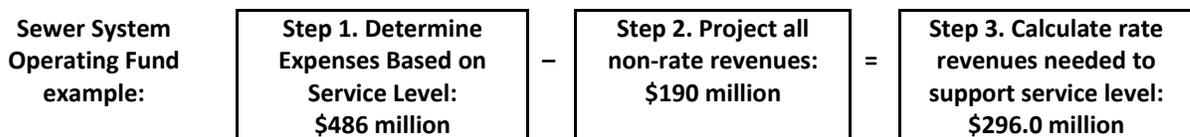
Each package is discussed in more detail under *Decision Package Analysis & Recommendations*.

Rate Development Approach

In addition to the components of the technical model, the bureau is guided by an internal philosophic approach to rate setting that suggests a conservative point of view with respect to the bureau-defined system needs. This approach reflects the cost of service rate making approach which is promoted by the Federal EPA guidelines for utilities. Additionally, this approach also results in sizeable year-over-year increases which could but could be considered aggressive from a ratepayer’s point of view:

- *Budget driver: Expenditures vs. Revenues*

As was discussed in the FY 2012-13 budget analysis, BES’ historic approach to rate development is to start with the expenses required for a pre-determined level of service, subtract out non-rate revenues and then calculate the rate revenues needed to support that level of service.



This traditional rate setting approach is analogous to a homeowner determining what her salary requirements are based on her current and projected household expenses. This is not an inappropriate way to help shape one’s job search criteria; however deriving one’s salary requirements based *solely* on current and projected household expenditures removes the economic environment within which the homeowner is conducting her job search. That is, the homeowner may “require” a job which pays \$50,000

a year, but the job market may not support this. If that is the case, the homeowner must re-work the equation and start with a realistic salary in order to back-into the household expenses that she can afford even if this means a greater risk of failure to household systems.

The bureau is encouraged to continue utilizing an alternate budget setting exercise (similar to the 90/10 hybrid zero based budgeting approach currently being used for the FY 2013-14 budget development) that recognizes the incremental rate impacts of adding back a variety of programmatic elements. This type of process allows for greater transparency and clarity with respect to trade-offs (greater rate increases vs. greater risks) than the more traditional rate development approach does in isolation.

- *Capital Projects and Accepting Risk*

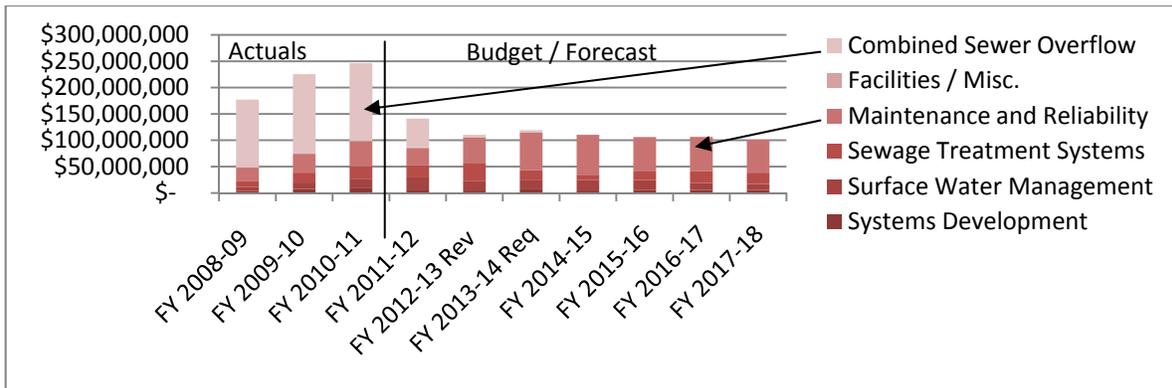
To continue the homeowner analogy from above, in an ideal world, a homeowner would upgrade and replace significant systems or appliances (electrical, plumbing, etc.) *just* before any major failures occur. The homeowner assesses the current condition of each system and evaluates how much useful life is likely left. The homeowner then either contributes to a savings plan with the goal of meeting the cash requirements needed by a certain date, plans to take out a home equity loan for larger projects or, for shorter term financing, makes a credit card purchase. There are times when market conditions are not favorable, or the homeowner’s salary increases have not kept pace with her original replacement plans. In those situations, it may be appropriate to reassess spending and accept additional risk of system failure.

BES is currently working in the top right corner of the risk matrix with respect to the Maintenance and Reliability projects within the CIP; that is, the bureau is only including projects in the CIP which have the highest likelihood and highest consequence of failure.

RISK MATRIX	Consequence				
	Likelihood	Insignificant	Minor	Moderate	Major
Almost Certain	M	H	H	E	E
Likely	M	M	H	H	E
Moderate	L	M	H	H	H
Unlikely	L	L	M	M	H
Rare	L	L	M	M	H

It is critical to understand BES’ risk matrix approach to CIP budgeting as the CIP is the biggest driver of expenses (in terms of cumulative debt service) and represents a large portion of *Step 1. Determine Expense base on Level of Service* in the budget formula in the bullet above.

The driver of debt service obligations is the size of a bureau’s capital program. The graph below highlights the relative changes in actual and planned spending by capital program over a ten year period. During the final few years of the federally mandated CSO program, Maintenance and Reliability occupied a small share of the CIP with a 14% of the CIP low in FY 2008-09. At the completion of the CSO and looking forward toward larger “discretionary” spending, M&R peaks at 68% of the CIP in FY 2014-15. The FY 2013-14 Maintenance and Reliability budget is \$72.2 million out of a total \$119.0 CIP, or just over 60%.



If revenues do not meet projected growth while bond financed capital projects increase, an organization can slowly start to become overwhelmed by debt service obligations to the detriment of operational needs. If the pressure on limiting rate increases continues to shrink available resources, Council is encouraged to decide what level of increased risk they are willing to accept. If Council is comfortable with increased risk, the bureau is encouraged to further refine and rank the projects within the top right/red category as well as revisiting other programs areas with the CIP for possible reductions. Alternatively, the bureau may refine the scope of work within existing critical projects in order to reduce them to the most salient and affordable components.

- *Budget vs. Rate Study*

The final component reviewed in evaluating BES' rate making approach concerns the use of the Adopted and Revised Budgets in conjunction with the bureau's annual *Sewer System Rate Study*. Each year in preparation for the Requested Budget submission, typically by the end of January, BES collects as much actual usage data as is available in order to calculate its revenue requirement based on the established expenditure requirement. This results in a requested operating and capital budget and an implied rate increase. The bureau continues to refine its rate requirements in time for the annual utility rate hearings held in mid-May. It is at the conclusion of the second hearing in May when Council votes to approve specific rates charged by all bureaus (primarily BES, Water, BDS, PBOT and the Solid Waste component of BPS) that go into effect as of July 1. Depending upon Council discussions and negotiations, the blended sewer/stormwater rate for the average single family residence may be different from what had been advanced in the Requested Budget submission. To the extent that the rate increase is less than what the bureau had requested, BES will reduce its budget at Council direction, so that these changes are reflected in time for the Adopted Budget.

January	May	June	July
Requested Budget submission	Utility Rate Hearings: Council Adopted rates	<ul style="list-style-type: none"> • Sewer System Rate Study released • Adopted Budget released 	Start of new fiscal year: rates and Adopted Budget in effect

On a parallel track to the budget and rate development process, the Bureau is completing a more refined analysis for its annual *Sewer System Rate Study*, which is usually released in June. While the budget establishes service levels and bureau priorities, a primary purpose of the rate study is to "Ensure that funding for Bureau operations is provided at the level authorized in the Adopted Budget."

On a technical level, the rate study recalculates the revenue required from rates, which is often different from the rate requirement calculation for the official budget process (as explained in the page 3 budget formula above). As an example, BES' rate revenue budget as of the FY 2012-13 Adopted and Revised Budget is \$270.1 million, while the FY 2013 Rate Study indicates that the revenue requirement is about \$

million less, or \$265.0 million. The bureau has been managing to the lower revenue projection for the past nine months and making internal adjustments to accommodate lower actuals against the lower base.

CBO recommends that BES modify its budget after the FY 2013-14 Rate Study has been released to match the more realistic Rate Study revenue requirement. Ideally, this would be in time for the Adopted Budget. However if timing does not permit this, then the update should be made at the first possible opportunity, likely the Fall Budget Monitoring Process. This will enable a more public and transparent understanding of the how actual monthly rate revenues should be compared to more realistic revenue requirement figure.

Core Mission and Core Services

As part of the Mayor's guidance regarding budgeting priorities (*FY 2013-14 Utility Guidance and Budget Priorities* dated January 9, 2013) bureaus were asked to "identify the functions, services and programs they believe are part of their core mission and those that fall outside of that definition . . . The bureau may need to narrow the definition of core services to reflect a more fiscally sustainable mission." It is with this guidance in mind, that the contents of BES' lowest priority programmatic decision package, *ES_04 / Support For Others*, can be viewed. Of the 14 discrete components within this \$5.3 million add-back package, \$3.8 million (or 71%) of the package is directly related to interagency agreements where BES pays for services provided by other bureaus, hence the package title. Within the remaining \$1.6 million not related to interagencies it is implied that these activities, which are not considered paramount to the fulfillment of BES' mission, should be paid for with other sources.

BES' mission statement:

Environmental Services protects public health, water quality and the environment by providing sewage and stormwater collection and treatment services for the Portland community. We protect the quality of surface and ground waters and conduct and promote healthy ecosystems in our watersheds.

Below are the largest components of this decision package whose functions the bureau has interpreted as falling outside of their core mission:

- Meter Maintenance and Replacement \$2.2 million (Water Bureau)
- Street sweeping \$1.1 million (PBOT)
- Office of Healthy Working Rivers \$780,697
- Variety of functions: education, tree inspection and a park ranger (Parks) \$363,869

The contents of this decision package highlights for Council the need for a city-wide review of how cross-department services are funded. Many of the functions that BES is funding are important, but it is unclear the degree to which they fit under a tighter interpretation of BES' mission.

The BAC came to the same conclusion, the BAC letter to Council states ". . . Please look at the pass-throughs in a comprehensive and strategic manner in order to appropriately delineate both the funding mechanisms and the delivery vehicle. . . This discussion must be done holistically while involving multiple bureaus as well as citizens. In the past, the City approached this issue on a case-by-case and/or bureau-by-bureau basis, when in fact, what is needed is a comprehensive discussion and realignment."

The CBO recommends the creation of a budget note that directs the City Budget Office to convene a task force with all impacted bureaus and BAC representation to review joint functions (including, but not limited to, street sweeping, tree planting and management and utility cost-of-service). The group is tasked with preparing a report to Council with a set of preliminary recommendations not later than December 31, 2013 and final recommendations by March 2014. A more detailed discussion of these decision package components may be found below.

Decision Package Analysis & Recommendations

Overall, the largest add-backs fall within Administration and Watershed program areas. Of note, the bureau has chosen to eliminate an entire program, Healthy Working Rivers, from its base budget. The program is included in the Requested Budget total as a last-priority add-back. The programs least impacted by the base budget reductions / add backs is Engineering followed by Portland Harbor.

An overwhelming majority of the Engineering budget is comprised of the bureau's Capital Improvement Plan (CIP) which totals \$119.0 million as of the Requested Budget. This leaves a non-capital program budget of \$12.6 million that can be examined for immediate rate-relief. This is not to say that capital programs cannot be eliminated or shifted out into later years in order to fit within a pre-determined rate increase cap, however the revised rule of thumb is that capital impacts rates on a 1/15 ratio. For example, the reduction of a \$15 million project from the FY 2014-15 CIP, would have the same impact as cutting \$1 million from the bureau's operating budget. Either reduction would have about a 0.33% rate impact. Due to the timing of the next sewer bond sale and debt service payment schedule in the next year, however, the impact of a capital project reduction in FY 2013-14 impacts rates on a ratio of 1/47. This suggests that a reduction in capital projects as a tool for rate relief is a medium or long term option, but not one to explore in the short term.

Program Budget – All Funds	Base Budget	Add Back Decision Packages	FY 2013-14 Requested Budget	DP as % of Program Total	% of add- backs
Administration	33,738,129	4,186,084	37,924,213	11.0%	35.9%
Engineering	131,624,266	749,456	132,373,722	0.6%	6.4%
Healthy Working Rivers	-	779,368	779,368	100.0%	6.7%
Portland Harbor	3,546,250	100,092	3,646,342	2.7%	0.9%
Pollution Prevention	9,385,643	697,396	10,083,039	6.9%	6.0%
Watershed	8,781,556	3,017,311	11,798,867	25.6%	25.9%
Wastewater	47,807,137	2,128,438	49,935,575	4.3%	18.3%
Program Total	234,882,981	11,658,145	246,541,126	4.7%	100%
Fund Level	694,392,286	(527,446)	693,864,840		
Grand Total	929,275,267	11,130,699	940,405,966		

All rate increases discussed in terms of the average single family residence

The packages discussed below are presented in the priority order as designated by BES; that is, ES_01 was ranked BES' first priority to add back and ES_04, the fourth priority out of four. For the most part, the bureau's priorities reflect the priorities as ranked by the bureau's budget advisory committee. There are 48 separate components that comprise the programmatic decision packages – the BAC voted on each of the components rather than on assembled packages. The average BAC ranking is indicated within each package description.

Of note this year is that the Office of Healthy Working Rivers submitted a Requested Budget under separate cover from BES' submission. The separate submission indicated where the Office would reduce its budget by 10% in professional contracts and requested adding it all back. The CBO has addressed the Office of Healthy Working Rivers as a programmatic component of BES, as it has done since the Office's creation. A discussion of the Office is included in BES' decision package ED_04 below.

Basic Operations and Maintenance, ES_01, \$1,744,666 9.20 FTE

This group of functions and activities comprises the package that the bureau and the BAC would most like to add back. Together they would raise the rate increase by 0.55% for a running total rate increase of 5.05% (4.50% base + 0.55% ES_01 = 5.05%). On average, the BAC ranked the components of this package 1.5, with 0 being the highest rank an item could receive. Certainly the components of this, or any package, can be approved without approving the entire package.

Program	Description	Amount
Administration	Application/Data Mgmt	20,196
	Finance / financial plan and rate study	129,150
	Risk Services	123,690
Engineering	Capital Prog Mgmt/Control	123,690
	Systems Development	343,158
Pollution Prevention	Environmental Compliance	289,782
Wastewater	Stormwater Facility Maintenance	290,000
	Contract for sewer inspections	250,000
	Sewer System O&M (PBOT)	50,000
	Stormwater O&M (PBOT)	125,000
Total amount		1,744,666

It should be noted that \$450,000 of the \$1.7 million supporting this package are not sewer rate revenues, but are Water interagency funds. In addition to requesting to add back all of the programmatic functions listed above, BES has requested that the Water Bureau reinstitute paying for the water discharge of the Benson Bubblers and reservoir flushings under Water’s management. Cost of service policies (industry best practice as well as the City’s own financial policies) suggests that the Water Bureau should, in fact, pay for the discharges its assets make into the sewer system.

It would have been more transparent, however, for BES to separate these two issues. The bureau should have submitted two discrete packages: 1. one package with the expense components (as outlined above) supported by \$1.7 million in rate revenues, and 2. a second package isolating the increase of \$450,000 in interagency revenues from Water with a commensurate decrease in sewer/stormwater rate. This second package would have shown a negative impact to rates.

The CBO supports the cost of service approach and recommends that Council direct the Water Bureau to reinstitute paying the appropriate discharge fee. If Council does not support the interagency with Water, BES should identify a component in a lower ranked package to cut instead in order to swap out the discharge fee revenues rather than increasing the rate increase more.

CBO Recommendation: \$1,744,666, 9.2 FTE

System Integrity, ES_02, \$2,262,042, 10.50 FTE

This group of functions and activities comprises the package that the bureau which the BAC ranked as second to add back - together they would raise the rate increase by 0.60% for a running total rate increase of 5.65%. On average, the BAC ranked the components of this package 2.2.

Program	Description	Amount
Administration	Classroom Field Lessons	216,768
	Contracting administration	175,014
	Facilities – maintain landscaping	150,000
	Information Management	176,922
	Reception / administration	64,524
	Non-conforming sewer program	118,254
Engineering	Stormwater Retrofit	97,608
Watershed	Columbia Slough	100,000
	Invasive species removal (Parks)	456,514
	Tree plantings (1,000)	343,000
	Grey to Green Youth Conservation Corps	175,000
Wastewater	Cogeneration Maintenance Contract	188,438
Total Amount		2,262,042

The most significant pieces of this package, from a citywide perspective, are the interagency with Parks to provide invasive species removal and the contract with Friends of Trees to plant 1,000 additional trees. Both the removal of invasive plant species and the planting of trees are important to the stormwater portion of the bureau's mission.

A critical discussion for the task-force recommended in the Key Issues section above is regarding trees and how the City should manage the lifecycle of a tree. The benefits of trees are many but the costs are not inconsequential.

To borrow from the FY 2012-13 budget analysis on this issue "In order to support and complement the work that is being accomplished with the new (tree) code, (the budget office) recommends that Council designate a lead "tree" bureau in order to create and manage shared tree prioritization and funding plan . . . With guidance from the lead bureau, the member bureaus could also develop criteria for which types of tree-related functions are an appropriate fit for particular bureaus to host." The CBO recommends that the functional task force recommended under Key Issues, tackle the issue of trees as its first topic.

CBO Recommendation: \$2,262,042, 10.50 FTE

Watershed Health, ES_03, \$1,783,126, 5.0 FTE

This group of functions and activities comprises the package that the bureau and the BAC would next most like to add back - together they would raise the rate increase by 0.45% for a running total rate increase of 6.10%. On average, the BAC ranked the components of this package 2.81.

Program	Description	Expense
Administration	FMLA Administrator	103,350
	Stormwater Customer Service	103,860
Engineering	Hydraulic Modeling	185,000
Pollution Prevention	Water quality monitoring	160,000
	Industrial Projects Program Manager	100,092
	Spill Control/Citizen Response	60,000
Watershed	Watershed Program Manager	100,092
	Tree plantings (2,000)	783,232
	Elm Tree protection (Parks)	62,500
Wastewater	After hours system failure overtime	125,000
Total Amount		1,783,126

The elements of this package for Council to consider are: the next batch of trees to plant (contracted with Friends of Trees) and elm tree protection. Please see previous decision package write up as well as the Core Mission header of the Key Issues section above.

CBO Recommendation: \$1,783,126, 5.0 FTE

Support for Others, ES_04, \$5,340,865, 8.0 FTE

This group of functions and activities comprises the package that the bureau and the BAC would least advocate for adding back - together they would raise the rate increase by 1.60% for a running total rate increase of 7.70%. On average, the BAC ranked the components of this package 3.3.

Program	Description	Amount
Administration	Accounting / SAP reports	62,802
	Meter Maintenance	2,214,108
Healthy Working Rivers	Healthy Working Rivers	779,368
Portland Harbor	Superfund Program Manager	100,092
Pollution Prevention	Source Control Division Manager	118,638
Watershed	Ecoroof incentives	447,448
	Watershed Stewardship program	154,500
	Pass-throughs to Parks	363,869
Wastewater	Street sweeping	1,100,000
Total Amount		5,340,865

There are several components to this decision package that warrant close scrutiny. Replacement packages may be in order depending upon how Council determines the overall rate increase that they are willing to support as well as which functions are determined to be primarily BES’ responsibility versus other bureau responsibility.

Meter maintenance and replacement function \$2.2 million – BES appropriately pays the Water bureau for its share of meter maintenance and replacement. Including the meter maintenance costs as part of the sewer/stormwater rates reflects the true cost of service, however billing them through a volumetric rather than base charge results in an inequitable distribution of charges between residential and commercial accounts. This action proposes to correct the problem by shifting the costs of BES’ share of water meter maintenance and replacements costs from the volumetric sanitary rates to the utility base charge. Currently sewer/stormwater rates do not have a base charge, only the water portion does on behalf of both utilities; all sewer/stormwater charges are billed through volume. If approved, the cost for this function would shift from BES to Water which is to say that although this item comprises 40% of the package and could represent a 0.66 % impact on sewer/stormwater rates, there is no actual savings to “utility” rate payers as the cost shifts from one part of the bill to the other.

Below are two alternate approaches that Council could direct BES to pursue:

- o *Sewer/stormwater base charge.* Work with the Water Bureau and/or an outside consultant to develop a sewer/stormwater base charge so that the meter maintenance cost and all other related sewer/stormwater base type charges can remain with BES and be charged appropriately to customers (base vs. volume). It is unclear how long or involved this change would be to implement. If this is something that could not accurately be resolved during the budget development process, CBO recommends keeping the charge where it is now and

directing the two bureaus, via budget note, to establish an appropriate sewer/stormwater base charge in time to implement for the FY 2014-15 Adopted Budget.

- *Alternate cut.* If developing a separate base charge is neither feasible nor considered best practice but moving the meter maintenance and replacement function is still a high priority, CBO recommends that BES be directed to submit an alternate package for \$2.2 million worth of potential reductions that will have an absolute impact on the overall utility rate for Council to consider. CBO requested that the bureau submit an alternate cut; however, BES indicated that no additional cut was required for compliance with budget guidelines. They further indicated that if they were directed to so, the bureau would look further into the program areas already offered up for potential reductions.

The following three items within the decision package are highlighted for Council's consideration in terms of their relative importance or benefit to the City's sewer/stormwater function vs. an overall citywide (General Fund, or other funding) benefit. By placing these items in their lowest ranked decision package, BES has decided that these functions are not core to their mission and/or are less core than anything they have included in the first three decision packages. Together they total \$2.24 million and represent 42% of the decision package. The impact on rates is approximately 0.67%.

Street sweeping \$1.1 million – Street sweeping provides the city with a variety of benefits.

Cleaning leaves and debris from streets can reduce stormwater blockages and reduce water pollution, in addition to increasing the flow of traffic and ability to park. The street sweeping function is provided entirely by PBOT, but arguably supports the service delivery of both bureaus. The full program is budgeted at just over \$4 million and the current funding split is 28% sewer/stormwater rates and 72% transportation revenues (PBOT). BES is proposing to pull all of its funding out of the program, leaving the entire program to be funded by PBOT. Based on a 1989 consultant report which pegged the stormwater benefits of street sweeping at 7%, it is BES position that their full contribution could be argued to be 7% of the total budget. Alternatively, BES has indicated that the two bureaus could negotiate a particular level of service to support the maintenance of two EPA permits. The estimated value of this approach is \$500,000 to \$600,000. PBOT's position is that street sweeping primarily benefits stormwater and, as such, BES should be responsible for 90% to 100% of the program costs.

Office of Healthy Working Rivers \$779,368 – The Rivers Office was never intended to be fully supported by the sewer/stormwater rates. If rivers coordination is deemed a high Council / city priority more so than strictly a BES priority, an argument could be made to establish interagency agreements between BES and the other partner bureaus in order to share the funding equitably between the groups: Planning & Sustainability, Parks, PBOT, Development Services as well as Portland Development Commission. Each bureau's funding share could be based proportionately by bureau budget size, or weighted based on some agreed upon benefit. Another option is to eliminate the office completely and have any residual work absorbed directly by the bureau as this would fit within BES' "Working for Clean Rivers" tagline.

Parks pass-throughs \$363,869 – This is a mix of several smaller items including funding for a tree inspector, education and outreach for Grey to Green trees and a program coordinator.

CBO recommends maintaining funding for each component within the decision package until Council has completed the comprehensive review of joint functions. The only exception to this recommendation is regarding the meter maintenance function. CBO recommends that Council direct BES to submit an alternate cut (excluding pass-throughs) for actual rate payer savings.

CBO Recommendation: \$3,126,757, 8.0 FTE

OMF Add-Backs, \$527,446

As per budget direction, the Office of Management and Finance (OMF) internal service funds were asked to submit 90% of their current service level (CSL) budgets as their base and add packages to restore funding up to 100% of CSL. Bureaus were directed to match the OMF add back packages with a single decision package. The table below outlines the total add-backs by service provider.

OMF service	Requested	CBO
		Recommendation
CityFleet	32,879	-
Debt Management	14,510	-
Enterprise Business Solutions	132,886	-
Facilities Services	83,565	-
Risk	28,040	17,526
Technology Services	235,566	-
Total BES impact	527,446	17,526

The impact of this package would be 0.15%, bringing the running total increase to 7.85%.

In response to add-backs recommended in the OMF budget analysis, the CBO recommends a draw on contingency of \$17,526 to fund these packages. A full discussion of all of the OMF packages may be found in the OMF budget analysis.

CBO Recommendation: **\$17,526**

City of Portland
 Decision Package Recommendations
 (Includes Contingency and Ending Balance)

	Bureau Requested					CBO Analyst Recommendations					
	Bureau Priority	FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses	FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses
Bureau of Environmental Services											
<i>Bureau Adds</i>											
ES_01 - Basic Operations and Maintenance	01	9.20	0	0	1,744,666	1,744,666	9.20	0	0	1,744,666	1,744,666
ES_02 - System Integrity	02	10.50	0	0	2,262,042	2,262,042	10.50	0	0	2,262,042	2,262,042
ES_03 - Watershed Health	03	5.00	0	0	1,783,126	1,783,126	5.00	0	0	1,783,126	1,783,126
ES_04 - Support for Others	04	8.00	0	0	5,340,865	5,340,865	8.00	0	0	3,126,757	3,126,757
ES_05 - OMF Add-Backs	NA	0.00	0	0	0	0	0.00	0	0	0	0
<i>Total Bureau Adds</i>		<i>32.70</i>	<i>0</i>	<i>0</i>	<i>11,130,699</i>	<i>11,130,699</i>	<i>32.70</i>	<i>0</i>	<i>0</i>	<i>8,916,591</i>	<i>8,916,591</i>
Total Bureau of Environmental Services		32.70	0	0	11,130,699	11,130,699	32.70	0	0	8,916,591	8,916,591

