

Bureau of Environmental Services

The following questions were asked during the bureau's budget work session. Responses are included in the attached packet.

1. How is it determined whether to use long-term debt vs. cash financing. How do we know when we have the right mix? How do BES and Water compare to each other?

BES Response: BES – like most sewer/stormwater utilities – determines its capital investment priorities based upon level of service expectations, health and safety regulations, consequence of failure, and other asset management principles. These priorities are then also considered against the long-term costs/impacts of investment (and/or failure to invest). The majority of BES capital is debt-financed for two primary reasons: 1) debt financing spreads the cost of a long-term asset over the useable life of that asset, better allocating costs among users of the asset over time, and 2) given the large and ongoing capital investment requirements of the Bureau, debt financing better accommodates more consistent annual expenditure levels which improves planning stability and helps avoid rate spikes. Increasing the ratio of cash-financed projects would result in two short-term outcomes – increased charges to ratepayers and/or reduced infrastructure investment.

There is no “one-size-fits all” response to the debt/cash financing mix question. The “right mix” for any entity will vary based upon unique factors such as financing condition, capital plans, operational priorities, access to financing tools, risk tolerance, etc. Independent credit rating agencies provide a good proxy for whether the Bureau is in good financial health, including use of an appropriate capital financing mix. The Bureau currently carries senior-lien debt ratings of Aa2 (Moody's) and AA (Standard & Poor's) – among the highest for sewer utilities nationally. An entity with a major imbalance in use of debt would be very unlikely to receive such favorable credit ratings.

BES and Water have different financial profiles and different capital needs. There are many metrics that could be used to compare the two entities, but no single data point holds significant meaning without considering other relevant information. Again, the credit rating agencies likely provide the best proxy for comparing water/sewer utilities generally. The City's Debt Management office (in OMF-Financial Services) would be best able to comment and assemble comparable rating-related metric between the bureaus. BES would be happy to work with the CBO and Debt Management to collect and assess debt-related data.

2. What % of properties in East Portland is receiving stormwater discount credit?

BES Response: As stated at the 3/29/2016 Work Session, approximately 35,000-40,000 customers Citywide receive the Clean River Rewards discount for on-site treatment of stormwater. The billing software does not currently provide an ability to easily gather data at a neighborhood level. It is technically possible to parse through individual accounts and assemble data at a more detailed level – however, such assignment would pull a staff person from their normal duties and incur other consequences. In the

meantime, we may be able to run data requests on a zip code basis, and we are currently working with the Revenue bureau on getting additional information. We are hopeful that efforts to integrate the billing system with GIS will allow us to more efficiently gather more robust data in the future.