Analysis By: Tess Jordan

BUREAU OF ENVIRONMENTAL SERVICES

All Funds Budget Summary	Adopted FY 2013-14	Request Base FY 2014-15	Decision Pkgs FY 2014-15	Request Total FY 2014-15	Percent Change
Resources					
Beginning Fund Balance	$99,312,000	$228,347,000	$0	$228,347,000	129.9%
Licenses & Permits	1,506,314	1,511,314	0	1,511,314	0.3%
Charges for Services	292,265,820	310,267,540	(2,286,040)	307,981,500	5.4%
Intergovernmental Revenues	1,817,872	945,678	0	945,678	-48.0%
Interagency Revenue	2,381,667	1,849,276	0	1,849,276	-22.4%
Fund Transfers - Revenue	308,832,552	309,935,545	0	309,935,545	0.4%
Bond and Note Proceeds	225,650,000	135,000,000	0	135,000,000	-40.2%
Miscellaneous Sources	1,415,000	1,495,000	0	1,495,000	5.7%
Total Resources	**$933,181,225**	**$989,351,353**	**($2,286,040)**	**$987,065,313**	**5.8%**
Expenditures					
Personnel Services	$59,052,684	$59,414,064	$0	$59,414,064	0.6%
External Materials and Services	52,298,751	53,316,859	(1,731,040)	51,585,819	-1.4%
Internal Materials and Services	39,703,261	41,642,933	(485,000)	41,157,933	3.7%
Capital Outlay	88,688,268	83,395,889	(70,000)	83,325,889	-6.0%
Debt Service	156,559,679	164,047,027	0	164,047,027	4.8%
Fund Transfers - Expense	313,805,232	312,063,665	0	312,063,665	-0.6%
Contingency	171,373,673	208,490,916	0	208,490,916	21.7%
Unappropriated Fund Balance	51,699,677	66,980,000	0	66,980,000	29.6%
Total Requirements	**$933,181,225**	**$989,351,353**	**($2,286,040)**	**$987,065,313**	**5.8%**
Total Bureau FTE	**519.28**	**518.67**	**0.00**	**518.67**	**-0.1%**

Percent Change is the change from FY 2013-14 Adopted Budget to FY 2014-15 Total Requested Budget.

Key Issues

Portland Harbor Superfund Site

BES is requesting $2.1 million in ongoing General Fund to repay a $16 million bond supporting one-time costs associated with the implementation of habitat restoration projects.

Background: In conjunction with the City's Watershed Management Plan and the City's potential obligation to restore natural resources in the Portland Harbor Superfund Site, BES is proposing to manage the implementation of habitat restoration projects that could be applied to the City's natural resource damage obligation in Portland Harbor. This obligation could potentially be met by construction of habitat restoration projects approved by the Portland Harbor Natural Resource Trustee Council as well as by the purchase of credits in other Trustee Council-approved projects.

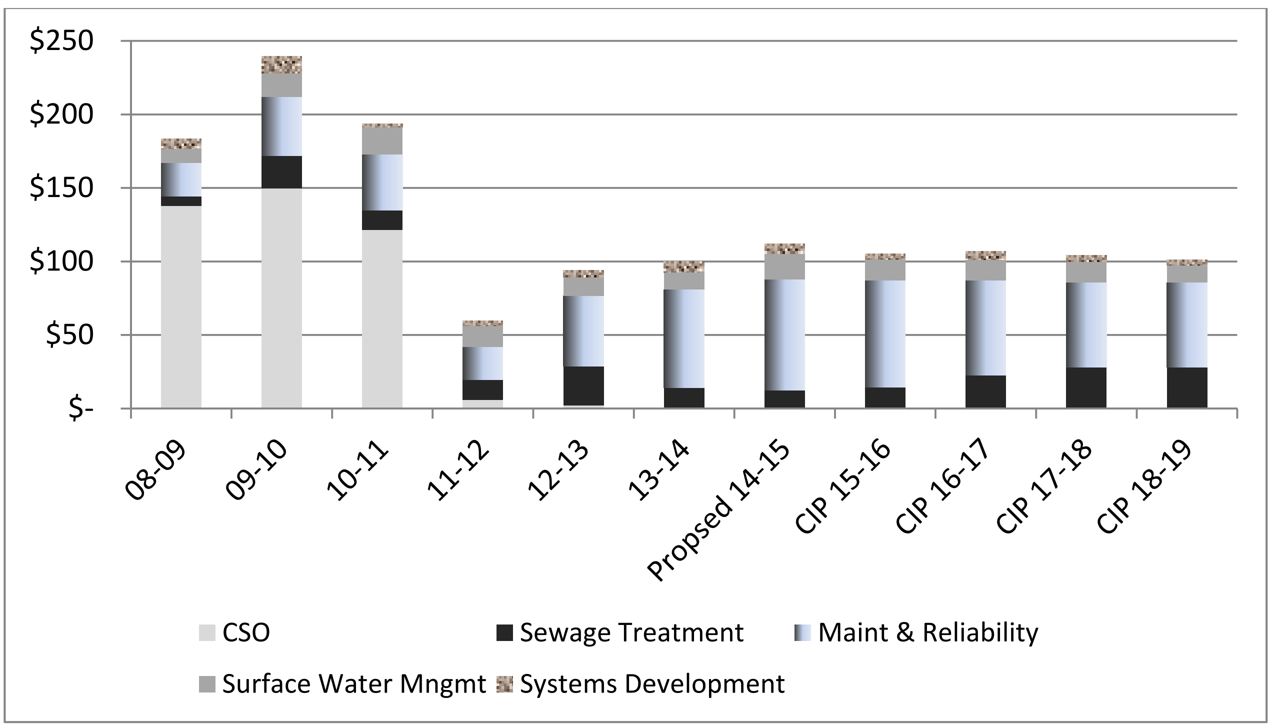
Portland Harbor was listed as a Superfund site by EPA in 2000. Under CERCLA (the Comprehensive Environmental Response, Compensation and Liability Act, or Superfund), entities that contributed contamination to the Site are responsible for cleanup of the site and for restoration of natural resources damaged by contamination. Non-judicial processes to allocate responsibility for cleanup and restoration will follow the issuance by EPA of a Proposed Plan for cleanup and then a Record of Decision that will outline the final cleanup plan. The current schedule for issuance of a Proposed Plan is no earlier than 2015.

Current Proposed Investment: The current proposed investment of up to $16 million would fund the purchase of credits in a Trustee Council-approved project and/or the construction of other habitat restoration projects that are approved by the Trustee Council, are consistent with the City's Watershed Management Plan, and that would be credited against the City's potential liability.

CBO recommends this investment because the City's potential natural resource damage restoration obligation is likely to grow if deferred because of the costs of construction and the benefit of early implementation. Due to scarcity of General Fund resources, $1 million in ongoing General Fund is recommended at this time.

Capital Improvement Plan

The bureau requests $111.9 million for capital spending in FY 2014-15, a 12% increase over current year capital spending and a marginal increase of 1% ($1.1 million) over previous assumptions for FY 2014-15 (within the current year Adopted Budget Capital Improvement Plan or CIP). Capital spending is less than what was during the Combined Sewer Overflow (CSO) control program facilities construction. Maintenance and reliability is the current emphasis of the bureau's CIP; spending on this program peaks this year and represents a threefold increase from FY 2008-09.



The five-year CIP is supported by planned average monthly bill increases outlined in the bureau's FY 2015-19 Preliminary Financial Plan. Debt service for $125 million in bond sales budgeted for FY 2014-15 will be due in FY 2015-16, driving a monthly bill increase of 4.5% in that year. In the absence of additional operating cuts, Council should expect this level of monthly bill increase for the FY 2015-16 budget development process by adopting the bureau's proposed CIP. The timing of CIP approval/bond issuances/rate increases is further discussed below.

Ten new projects are scheduled for FY 2014-15, and total $6.2 million in spending next year ($53 million throughout the five-year CIP). These projects include (dollar figures are 14-15 budget/five-year CIP):

Maintenance and Reliability

- Alder: Sunnyside East South Recon Green Streets ($103,000/$2.88 million). Alder is a new area of emphasis in a series of projects to address capacity issues. In total there are six projects that address the SE Alder Basin within the five-year CIP. Alder is currently the highest risk area for basement sewer backups.
- Beech Essex CP-K ($53,000/$1.45 million). Smaller area in need of capacity enhancements to address risk of basement sewer backups.
- Capital Maintenance - non-process facilities ($250,000/$4.25 million). This is an initial placeholder to allocate capital dollars to bureau assets such as the Columbia Boulevard Wastewater Treatment Plant (CBWTP) administration building and the Water Pollution Control Lab. FY 2014-15 dollars will upgrade efficiency of the original CBWTP administration building including new roof, windows, and HVAC replacement. The bureau may adjust its $1 million annual allocation (after FY 2014-15) in future years.
- TGD: SE Salmon Green St and Pipe Reconstruction ($1.46/$1.51 million). The last of several projects within the Taggart Basin/Tabor to the River capacity expansion effort. A total of six Tabor to the River projects are within the five-year CIP; all are scheduled to be complete by FY 2017-18.

Sewage Treatment Systems

- CBWTP Outfall Diffuser ($100,000/$2.88 million). This project repairs damage to the diffuser system on outfall pipes caused by river sediment. Diffusers encourage a faster rate of dilution and are mandated by requirements around mixing zones.
- TCWTP Headworks, Dry Weather Clarifier & Odor Control ($2.59/$28.32 million). This is the largest addition to the five-year CIP, and involves acquiring property to reconfigure the Tryon Creek Wastewater Treatment Plant and reconstruct elements (including the headworks) in need of replacement. This is an early planning cost estimate; the project extends beyond five years for a total of $38.5 million. A portion of this cost (currently under negotiation) will be reimbursed by the City of Lake Oswego.

Surface Water Management

- Balch Creek Trash Racks Predesign ($100,000/$100,000). Project cost reflects pre-design only for replacing the structures within Balch Creek (in Lower Macleay Park). The solution for replacement is not yet known.
- Columbia Slough Outfalls ($150,000/$6.15 million). Series of small projects to filter sediment and pollutants from stormwater runoff from City Right of Way into the Columbia Slough. Projects will include green streets where possible, as well as mechanical and concrete solutions. Projects are driven by a DEQ Record of Decision to clean up sediments.

- FT: Fanno Tryon Drainage Shoulder Improvements ($220,000/$1.23 million). This project converts ditches to swales to address pollutants associated with heavy traffic corridors.
- UIC Improvements ($1.22/$1.23 million). Last of a series of projects to address Underground Injection Controls (UICs, or sumps) that do not meet current regulations concerning the distance between UICs and groundwater.

Five Year Financial Plan

The bureau's five-year financial plan revises downward the projected rate increases moving forward. Out-year adjustments reflect changes in many assumptions, including inflation, PERS rates, bond interest rates, debt issuance and refunding, and programmatic shifts.

	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19
Monthly Single-Family Bill Increase					
FY 2014-18 Plan	5.10%	5.00%	4.75%	4.60%	n/a
FY 2015-19 Plan	4.00%	4.50%	4.00%	4.00%	3.35%
CIP (in millions)					
FY 2014-18 Plan	$107.1	$100.5	$103.0	$95.0	n/a
FY 2015-19 Plan	$111.9	$105.5	$106.9	$104.3	$101.3

In most years capital spending is slightly increased in the FY 2015-19 five-year financial plan, compared with the FY 2014-18 five-year financial plan. This is associated with added inflation, and additional information on project costs and timing. Capital spending remains fairly level throughout the plan; three planned debt issuances support this spending level (in FY 2014-15, FY 2016-17, and FY 2018-19). Bond issuances typically support 18-24 months of capital spending. This level of capital spending (together with operating expense cost inflation) requires annual monthly bill increases between 3.35% and 4.5%.

Key forecast assumptions include:

- Operating expenses average annual increase of 4.7%
- The required rate revenue increase will average 5.1% annually. This is higher than the average bill annual increase due to assumed growth in customer accounts, the expansion of the Class Average Extra Strength Program, and new stormwater charges to properties within the three Multnomah County Drainage Districts.
- Usage per customer is projected to decline 1.5% annually for single family residential accounts, 0.75% for multifamily accounts and 1% for commercial accounts, due to continued conservation efforts. The bureau has been assuming various levels of usage conservation going back to at least 1994.

Rate Stabilization Fund. The Rate Stabilization Fund balance is budgeted to increase from a low of $4.9 million in FY 2012-13 after completion of CSO construction, to $16.9 million projected for the end of FY 2014-15. The reserve target for this fund is 8% of operating expenses; an additional 2% is retained within the Sewer Operating Fund. For FY 2014-15 the total 10% reserve target is roughly $10.1 million; the Rate Stabilization Fund balance exceeds the bureau's reserve target, but is expected to be drawn back down to the minimum in FY 2015-16. The financial plan calls for two transfers from the Rate Stabilization Fund to the Operating Fund (years 2 and 4), and three transfers from the Operating Fund to the Rate Stabilization Fund (in alternating years 1, 3 and 5), as a method to smooth rate increases over the five-year period. The ending fund balance within the Rate Stabilization Fund is projected to be $17 million at the end of FY 2018-19.

Debt service coverage: The bureau maintains a 1.30 debt service coverage ratio (DSCR) planning standard for first-and second-lien bonds combined. This is higher than the bond covenant requirements of 1.20 for combined debt with transfers to/from the Rate Stabilization Fund. Both are important indicators to bond markets of the bureau's financial management, and impact bond ratings. These ratios are applied to net operating income: after operating expenses are paid, net operating revenues must be 30% higher than debt service costs to meet planning standards and 20% higher than debt service to meet bond covenant requirements. That 30% excess (in FY 2014-15, roughly $48 million) must be spent on non-operating items such as Utility License Fees ($14.6M) and contributions to the Capital Fund ($20.0M). Total debt service expenditures budgeted at $163.2 million in FY 2014-15 include $158.9 million for sewer revenue bonds (on which the DSCR is calculated), $1.6 million payments on state loans, and $2.7 million on the Bureau's share of the City's Pension Obligation Bonds.). The bureau has monitored its debt service coverage closely, and over the past five years has come within one percentage point of its planning standard, leaving little cushion. The bureau attributes this to the presence of the Rate Stabilization Fund, which allows the bureau to mitigate fluctuations in revenues or expenses. The Planning Standard essentially serves as a floor for bond markets and a ceiling in terms of the bureau's budgeting for minimal rate increases.

Capital Spending + Rate Setting

BES rates are heavily influenced by the debt service that supports capital spending. BES proposes the following year's rate increase within the context of a five-year financial plan that includes a Capital Improvement Plan (CIP), expected debt issuances, and forecasted rate increases. The components of capital spending vary, but on average roughly 75% of annual capital costs are supported by revenue bonds, which are typically paid off via debt service over either a 20 or 25 year period. In the current year, the bureau's budget anticipates $157 million in debt service (prior capital spending), $119 million in current year capital spending, and $121 million in operating costs.

Currently, the bureau's capital project funding and spending precedes rate setting. The City's process for authorizing BES capital spending is as follows:

1. **Authorize five-year CIP** via budget adoption (June).
2. **Issue bonds to fund CIP**. Depending on how BES and Treasury structures a bond sale, there is typically a lag of up to one year between the issuance of bonds and the full annual debt service payment. In FY 2013-14, bonds were issued in September 2013, the first debt service payment on February 1st was an interest only payment, with the full principal and interest payment due August 1st 2014 (FY 2014-15). Because of this delay, the FY 2013-14 Adopted Budget includes spending of bond proceeds on capital projects but not the full rate increases and/or expense reductions necessary to fund the debt service. The bond sale acknowledged this, and was premised on future cost and revenue assumptions, including future rate increases (an assumed 5.10% increase in FY 2014-15 within the bond document).

3. **Set rates via budget adoption**. The FY 2014-15 BES budget and rates must respond to debt service payments already obligated. Bond covenants include a legal requirement to raise rates if needed to meet legal debt service coverage on existing bonds. Expense inflation is another factor that drives rate increases in the absence of increased service levels. Since reducing debt service coverage – which would negatively impact bond credit ratings and subsequently increase future borrowing costs – is not a desirable option, then if all other forecasting factors remained unchanged the bureau would have to choose one or a combination of the following:
    a. An increase (4.6% to rate revenues)
    b. An offsetting operating cut ($4.6 million, or 3.7% of operating dollars)

After bonds are issued, adjusting capital project spending will not impact rates in the near-term as repayment of bonds has been obligated along with a 12-18 month spending plan for the bond proceeds. For FY 2014-15 and potentially through FY 2015-16, debt has already been issued for the bureau's capital plan. Short-term efforts to reduce resources required will necessarily target operating dollars.

In order to meet its obligations for FY 2014-15, the bureau's Requested Budget proposes a combination of a 4.0% average bill increase and $2.3 million in operating cuts, in accordance with budget direction from the Bureau's Commissioner. The strategy of reducing rate increases via operating cuts has been adopted the previous four budget cycles. Prior years' ongoing operating reductions are reported below; FY 13-14 (current year) excludes cuts that were backfilled with non-rate revenue.

- FY 2013-14: $3.41 million
- FY 2012-13: $4.10 million
- FY 2011-12: $2.02 million
- FY 2010-11: $2.10 million

The disadvantage of the City's current approach to capital spending and rate setting is that rate adjustments focus on only half of the bureau's spending (the non-capital component). Demand for operating dollars is simultaneously growing with the bureau's grey and green infrastructure assets. Green infrastructure is significantly less costly to construct, and reduces future capital investment, but does require greater long-term operating dollars to ensure continued functioning. The current approach of limiting rate increases through operating cuts is an obstacle to sustainable financial planning.

Alternatives to the Current Rate Setting Practice

Either within the current capital spending and rate setting practice or within a new protocol, Council – along with BES and Treasury – is encouraged to engage in more explicit conversations about the multi-year rate impact of the CIP, and to memorialize its understanding and intention as part of the budget process. This would encourage both rate and CIP conversations to adopt a longer term perspective, as does the bureau in the development of its five-year financial plan. A longer-term perspective would also encourage transparency in the relationship between the bureau's CIP and its rate requirements, and provide the bureau with greater predictability.

Beyond placing greater emphasis on the bureau's multi-year financial context, the City could opt to adjust the rate setting cycle. Alternatives to current practice include:

1. **Approve multi-year rate increases.** This practice is occasionally employed by other public entities, typically to support a significant project cost that will be spread across multiple years. BES's bill increases have been more consistent, with 15+ years of CSO spending now replaced by reinvestment in existing assets. The City last approved a multi-year increase for BES in the early 90s. Council would retain the right to reconsider annual increases (so long as debt coverage requirements for existing bonds continue to be met), but this is also the case in the current system, in which Council can adjust rates mid-year.
2. **Reverse the cycle**. This would require slowing the need for new capital dollars to allow rate approval to catch up with the need to reissue capital debt. This could occur through a combination of revenue growth above projections, slower capital spending, and one or more years of larger rate increases. If this was to occur, Council's rate adoption in May and budget adoption in June could impact the following year's capital spending. The current sequence of issuing bonds to fund the current year CIP and then approving rates during the subsequent-year budget cycle to support payment of those bonds is similar to the sequence at private utilities, in which projects are approved, funds are expensed, and then rates are adjusted to reimburse those project expenses. Adjusting this sequence such that rates to support bond payment are approved prior to bond issuance would be favorable to the bond markets, would clarify the political conversation around acceptable rate increases, and would allow for a more balanced response to requested rate adjustments.

BES Capital Spending

This section describes the bureau's approach to asset management and capital spending. CIP spending responds to risk of asset failure, protecting human health and safety, environmental preservation and improvement (in part driven by regulatory mandate), and system expansion needs. BES describes its asset management funding level as able to accommodate the vast majority of projects with a positive Net Benefit Cost Ratio (NBCR), or projects for which the cost of investment is less than the consequence of delayed investment. This project evaluation methodology is commonly applied to built assets such as pipes; the bureau has employed it for roughly four years. It provides a mathematical demonstration of the value of an investment to the bureau and the rate payers. The bureau estimates that all but $24 million in low NBCR projects pertaining to its built assets are within its current 10 year CIP. For built assets, the bureau's level of investment is close to optimal.

The asset management division is working towards similarly quantifying risk and establishing priorities around investments in ecosystem enhancement and protection. These investments require a more sophisticated lens, and applying a NBCR methodology to ecosystem services is a new endeavor nationwide. For instance, the Columbia Slough Total Maximum Daily Load and outfall diffuser projects new to the proposed CIP were not assigned a NBCR; they are instead driven by regulatory mandate. Currently, the bureau has identified $10 million in Phase II stormwater runoff improvements within the Stephens Creek area that are not yet included in the 10-year CIP. The bureau is now drafting a Stormwater System Plan – expected completion in FY 2015-16 – that will use asset management risk approaches to identify additional key areas for improvement within the 600,000 acres that drain to separated stormwater systems. The cost of these improvements is not yet known or reflected within the 10-year CIP.

The following is an overview of steps involved in a project's inclusion in the BES CIP.

I. **Step 1: Problem Identification**. Projects are submitted for evaluation via:

   a) **Asset management review.** The bureau's 23 member asset management task team and its technical partners across the bureau assess wastewater system facilities on a 10-year cycle, establishing a new project list every 5-10 years. Its last (multi-year) asset evaluation effort focused on pipes and concluded in 2012. This effort produced the 'chiclet' and 'jellybean' maps that identify capacity deficiencies and groupings of pipe replacement that will focus CIP efforts over the next 10 years. Strategic responses to regulatory mandates are also developed via this team.

   b) **Maintenance staff.** Maintenance provides a regular, on-the-ground check to the Asset Management task team's work, and reports on required but unplanned investments needs.

   c) **Watershed planning.** This team proposes enhancements to or restoration of natural resources and drainage systems, green infrastructure, or mechanical additions to the bureau's assets.

   d) **Wastewater Engineering.** This team works with Asset Management and operations staff to propose projects related to treatment plans and pump stations.

II. **Step 2: Project evaluation**. A risk factor is applied to each problem or suggested effort: 1) likelihood of failure x 2) consequence of failure = 3) magnitude of risk (expressed in dollars). Projects are generally considered by a multi-disciplinary team that develops a range of alternatives (from three to 40, depending upon the issue) and recommends the most cost effective solution for mitigating risk while considering other benefits such as watershed health. The bond market requires that this evaluation process precede bond sales. The recommended solution is written up as a Project Request Form (PRF) and submitted to the Capital Program Controls team.

III. **Step 3: Project selection**. A cross-bureau team considers PRFs each fall for inclusion in the CIP. Typically new projects would be moved into years 4-5, as earlier years are more firmly established. The number of new projects submitted annually typically varies between four and 20. In developing the proposed CIP, the Program Management & Control Team considers new PRFs, projects moving forward from its 10 year CIP, and shell projects (ongoing annual allocations for a type of asset or type of repair).

The Asset Management group and its bureau partners are now focusing on evaluating the bureau's treatment plants, pump stations, stormwater system and unsewered areas to determine where future investments are needed.

Decision Package Analysis & Recommendations

BES reports that in identifying the requested operating cuts, it prioritized reductions to programs for which it has limited control over service levels or expected outcomes, and that it sought to spread out reductions to areas not recently cut. This approach prioritized programs delivered externally. Cuts passed on to partner agencies impact the bureau's risk to service delivery to various degrees, discussed below. Cuts retained within the bureau that are associated with service level reductions (as opposed to truing up costs) total $210,000 (Water Pollution Control Lab O&M and software training).

In total CBO recommends $2,172,740 in cuts out of $2,346,040 proposed. The difference arises from 1) contracts requiring renegotiation that has not yet occurred, and 2) updated cost estimates provided by BES. The difference within the two packages of reductions is $173,300, equivalent to a 0.1% sewer, stormwater and superfund monthly bill increase and a total combined sewer/water estimated monthly bill increase of 4.97% (should all other budget elements hold constant).

Service neutral budget adjustments: ES_02, ES_03, ES_06, ES_11, ES_14, ES_17, ES_18, ($1,011,640)
These packages represent the elimination of line-item detail from the current year budget of projects and purchases that are complete or will be complete by July 1, 2014. This includes the Tryon Creek Facilities Plan, the Stormwater Management Manual, purchases of mass spectrometry lab equipment, and software purchases. This cluster of packages also includes a projected $345,538 decrease in electricity costs associated with pump stations. None of these packages is associated with service level impacts; they are true ups between current year and coming year expenses.

CBO Recommendation: ($1,011,640)

City cost reassignment: ES_01 Street sweeping Contribution, ($425,000)
This $425,000 package reduces funding that BES provides to PBOT to support its street sweeping program. It estimated FY 2014-15 costs are based on current year costs of $350,000 + overhead. A more current revised estimate of FY 2014-15 costs (and corresponding reduction) is $359,100.

BES financial support for street sweeping began in FY 1989-90. In 2012-13, BES support was $1.1 million, which decreased by $750,000 in the current year without consensus on the actual impact of street sweeping to water quality. A current year Budget Note directed PBOT and BES to jointly evaluate the program and its water quality/stormwater benefits, and to provide a recommendation to Council by September 30, 2013. The Fall BMP Ordinance reported that the bureaus are designing a pilot to improve program effectiveness and efficiency, to help inform a revised BES and PBOT payment share proposal.

The final street cleaning evaluation (drafted by both PBOT and BES) states that BES has concluded it is more cost effective to remove debris from the collection system than by street sweeping. PBOT states that the program could be more effective with parking prohibition signs ($500 per block face) and signage to encourage property owners to prune trees. Currently cars are not removed prior to street sweeping. BES remains neutral on these program improvements. Both bureaus report the program received a low priority ranking from Bureau Budget Advisory Committees.

The theory behind street sweeping's impact on water quality is that sweeping can reduce the total suspended solids and pollutants that bind to those solids (notably oils and grease) that eventually make their way to bodies of water. The bureau estimates that 15,500 acres generating roughly 20% of the City's stormwater runoff is piped to waters of the state without treatment (via the separated stormwater system), the bulk from the west side.

Studies are inconclusive as to the impact of street sweeping on water quality. A 2007 report by the US Geological Survey on Madison, Wisconsin, concluded that "there is little probability that street sweeping, regardless of street-sweeper type, had any measurable effect on the quality of runoff," and adds that isolating changes to stormwater quality is difficult due to the high variability of sediment delivered from a variety of sources other than streets. BES similarly reports that changes in its system (such as bringing the CSO online) would dwarf any measurable impact that may have been attributed to PBOT's reduction in sweeping services over the past several years.

Despite its disputed benefit, street sweeping is a criterion of the City's Municipal Separate Storm Sewer System (MS4) Discharge Permit, required by the Clean Water Act. The current permit (shared by the City and the Port) expires in January 2016. Schedule A.4g, Pollution Prevention for Municipal Operations, states that:

> *The co-permittee must continue to implement a program to reduce the discharge of pollutants to the MS4 from properties owned or operated by the co-permittee for which the permittee has authority, including, but not limited to, parks and open spaces, fleet and building maintenance facilities, transportation systems and fire-fighting training facilities. The co-permittees must conduct, at a minimum, the following program activities:*
>
> *i. Operate and maintain public streets, roads and highways in a manner designed to minimize the discharge of stormwater pollutants to the MS4, including pollutants discharged as a result of deicing activities;*

The bureau's Stormwater Management Plan is incorporated into the permit by reference. It includes three Operations and Maintenance Best Management Practices, including OM-2: "Operate and maintain components of the public rights-of-way, including streets, to remove and prevent pollutants in discharges from the municipal separate storm sewer system. Street sweeping is listed as a strategy, activity and measurable goal." (Sweep residential streets three to six times per year and arterials six times per year.)

If street sweeping activities were reduced, BES may need to apply for a permit adjustment with DEQ that outlines activities to replace street sweeping. The timeline for this process is unclear. Despite the potential hurdles associated with this adjustment, the bureau proposes this cut as a service level reduction that poses less risk to its service delivery than alternative reductions. BES states that General Fund can replace rate funds if street sweeping is a City priority; however, the package does not request General Fund and CBO has not recommended that General Fund backfill this service.

CBO Recommendation: ($359,100)

City cost reassignment: ES_05 Portland Loos, ($119,000)

The Portland Loo was developed in the mid-2000s by the Portland Water Bureau, which produced, installed and maintained six Loos in Portland's Central City. A FY 2012-13 Budget Note transferred program management and costs to BES effective July 1, 2012. A subsequent FY 2013-14 Budget Note rescinded the original intention to transfer ownership of the assets to BES, but kept the assignment of program management with BES.

This package does not include the cost of 1.0 FTE who currently handles external inquiries from municipalities seeking to purchase Loos (along with other duties). Since July 2012, the bureau has sold five units for total net revenue (minus staffing costs) of close to $108,000; two additional sales are in negotiation. This revenue partially offsets the position cost, but is not reliable, and it is not a line of business the bureau wishes to pursue.

The Bureau identified this program for elimination in order to meet the requested budget reduction as a program that can be reduced with relatively lower risk to the bureau's service delivery goals. CBO does not recommend General Fund to backfill the rate revenue that supported this program due to a scarcity of General Fund resources.

CBO Recommendation: ($119,000)

County IGAs: ES_13 Renegotiate County lease agreement, ($60,000) and ES_16 Reduce vector control services, ($47,400)

County lease agreement: The County and City signed an agreement in May 1968 allowing the County to occupy property and structures at CBWTP without compensation. The agreement is perpetual, but it can be amended. This request would amend the agreement so that the bureau's support for County office space and utility use are compensated at $5,000 per month ($60,000 annually). County-occupied structures include a 3,000 square foot single story office and storage building, including two high-bay garages; a 3,000 square foot covered parking area; a 500 square foot storage building, and a 2,200 square foot triple-wide modular office and lab purchased and installed by the County. These structures occupy approximately one acre on the CBWTP site. BES pays for the County's water and sewage usage; the County pays its remaining utilities. The BES proposed rent translates into roughly $17/square feet on an annual basis. This is high for light industrial flex space, but not entirely out of line with the market given the extensive parking and large site.

Vector Control Support: This reduction is requested in an effort to widely disperse the impacts of the requested operational cuts. BES is proposing to reduce funding for mosquito abatement. The requested $47,400 cut is a 20% reduction to the $237,000 annual IGA, which covers both rat abatement and control and mosquito abatement. The IGA can be modified with 30 days written notice, and allows for annual funding adjustment "in accordance with the City's adopted budget process." Neither BES nor CBO has vetted this proposal with the County.

CBO supports these budget adjustments. However, both require negotiations that have not yet been undertaken, intersect with larger conversations on City/County service provision responsibility, and may be challenging to conclude before FY 2014-15. CBO recommends the bureau move forward with negotiations and bring these packages back in budget adjustments or in the FY 2015-16 budget development process.

CBO Recommendation: $0

Reduce superfund funding: Natural Resource Trustees, ES_09, legal and technical contracts, ES_07, ES_08, ($300,000)

See Significant Issues for an orientation to the City's current involvement in Superfund activities.

Natural Resource Trustees: This body is currently involved in Phase II work, which uses Phase I data to negotiate early settlements. Phase II work is expected to continue through December 2014, and is supported in part by a $100,000 BES contribution made in 2010.

Concurrently, the City is participating in a nonjudicial Natural Resource Damage Allocation Participation Agreement. When that process concludes, the City will need to pay the Trustees to review the proposal. The cost and timing of that review is unknown. If this reduction is approved, BES would retain roughly $186,000 budgeted for Trustee support.

Reduce legal and technical contracts: Technical and legal assistance contracts support the City's participation in Portland Harbor Superfund site activities, including the liability allocation process. The City's focus is now shifting from outfall investigations to identifying future recontamination issues and reviewing and commenting on the Lower Willamette Group's (LWG) Remedial Investigation/Feasibility Study, which the EPA will use to develop a proposed cleanup plan. The City will track both processes to advocate for adequate resource protection. The City's work in FY 2014-15 also includes participating in the multi-party liability allocation process, which involves technical review and negotiations with other parties. The exact workload and contract dollars required are unknown and are influenced by the progress and timing of these multi-party efforts.

These two packages would reduce the contract budget by a total of $200,000, leaving a FY 2014-15 budget of $1,050,000. Portland Harbor contract spending has decreased over the past four years (from $1.7 million in FY 2010-11); the bureau estimates that at least $1.0 million will be expensed in the current year.

CBO Recommendation: ($300,000)

Eliminate SWNI contributions, ES_12, ($73,000)

This package transfers money to Southwest Neighbors Inc, which in turn supports a 0.90 FTE staff person at the Southwest Watershed Resources Center (SWRC) and roughly $20,000 in grant funds. In the absence of a watershed council in SW Portland, SWRC serves as a clearinghouse for the 14 volunteer-based 'friends of' groups in the area (some of which have been initiated by SWRC). SWRC solicits grants, provides technical assistance, and helps with event coordination, publicity, and facilitation. For FY 2012-13, SWRC reports leveraging $90,573 in grants to SW Portland community groups, $13,124 in continuing grants and 3,500+ hours of volunteer time.

The bureau recognizes watershed councils as key partners and capacity expanders in its service delivery efforts. It supports three councils with direct funding and project-based partnerships. Direct funding levels are: Johnson Creek ($5,000), Tryon Creek ($5,000) and Columbia Slough ($38,000). BES support has decreased as the councils have succeeded in attracting alternative revenue streams. Columbia Slough support remains higher because this area is dominated by industrial land owners and underserved residences; mobilizing a volunteer base is more challenging here.

Southwest Portland is unique in the number of tributaries it encompasses and their intersection with multitudes of private land owners. BES staff reports that various groups have tried to initiate watershed councils here over the past 20 years but no effort has been successful.

The SWRC was put on alert that the current year could be its last year of BES funding, due to the significant operating cuts the bureau experienced in the current year. CBO notes greater concern over this proposal than any other, due to the role that watershed councils play in supporting the bureau's core mission. BES submits this package as a lower risk to its service delivery than alternative cuts. CBO supports the package on this basis.

CBO Recommendation: ($73,000)

Reduce ecoroof support, ES_10, ($100,000)

The bureau's Ecoroof program originated with the Grey to Green initiative in 2008. It consisted of two components: private sector incentives ($5 per square foot) and in-house activities (roughly $160,000 annually for structural engineering and design-build support and outreach activities). The remaining funds for incentives – beyond funds set aside for contracts signed but not yet expensed – were eliminated in the current year budget ($647,000). This package eliminates $100,000 in FY 2014-15 funding for in-house activities. Over the past three years, the bureau has spent an average of $24,000 annually against this budget. Based on past spending trends, this reduction will not result in service level impacts.

Ecoroof programming was designed to help reduce inflows into the storm water system while also addressing climate change in urban areas. The program aspired to build 43 acres of ecoroofs; 140 projects were developed (for a total acreage well below 43). The gap between the program's aspirations and accomplishments is attributed to the downturn in the housing market and development activity, and to the bureau's learning curve in how to target both outreach and participation to best meet City stormwater system needs.

CBO Recommendation: ($100,000)

Reduce maintenance at Water Pollution Control Lab, ES_15, ($60,000)

This package reduces Facilities FTE supported by an interagency agreement. It represents 22% of the building's current O&M service level; the remaining budget is roughly $217,000. Janitorial services would be reduced by $30,000, reducing the number of hours or days of this service; O&M would be reduced by an equivalent amount.

The Water Pollution Control Lab opened in 1997 with the understanding that rooms would be available to neighborhood associations free of charge. The bureau is not aware of an ordinance or agreement that reflects this understanding. The requested budget suggests that increasing or introducing fees to user groups, or diminishing access, may be a necessary offset to this expense reduction.

CBO Recommendation: ($60,000)

Reduce software training, ES_04, ($150,000)

This package reduces ongoing training for Microsoft Office 365 software, introduced to some employees in the current fiscal year. Full roll out is scheduled for FY 2014-15. Due to this planned expense reduction, employees have access to computers loaded with MS Office 365 on which tutorials are available. Key staff members have also been identified as able to answer questions on the use of this software.

CBO Recommendation: ($150,000)

City of Portland

Decision Package Recommendations

(Includes Contingency and Ending Balance)

	Bureau Priority	Bureau Requested					CBO Analyst Recommendations				
		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											
Reductions											
ES_02 - Eliminate Tryon Creek Facilities Plan Update	01	0.00	0	0	(411,354)	(411,354)	0.00	0	0	(411,354)	(411,354)
ES_17 - Reduce A/V Equipment Upgrades at WPCL	02	0.00	0	0	(10,000)	(10,000)	0.00	0	0	(10,000)	(10,000)
ES_11 - Reduction of Stormwater Manual Update	04	0.00	0	0	(75,000)	(75,000)	0.00	0	0	(75,000)	(75,000)
ES_06 - Replacement of MS Office Pro	05	0.00	0	0	(101,748)	(101,748)	0.00	0	0	(101,748)	(101,748)
ES_04 - Replacement of MS Office Pro - Training	06	0.00	0	0	(150,000)	(150,000)	0.00	0	0	(150,000)	(150,000)
ES_03 - Reduce Electricity Needed for Pump Stations	07	0.00	0	0	(345,538)	(345,538)	0.00	0	0	(345,538)	(345,538)
ES_05 - Transfer Portland Loos to the General Fund	08	0.00	0	0	(119,000)	(119,000)	0.00	0	0	(119,000)	(119,000)
ES_14 - Reduce Lab Equipment	09	0.00	0	0	(60,000)	(60,000)	0.00	0	0	(60,000)	(60,000)
ES_16 - Reduce Mult Co Vector Control Agreement	10	0.00	0	0	(47,400)	(47,400)	0.00	0	0	0	0
ES_12 - Eliminate Contributions to SW Neighborhood	11	0.00	0	0	(73,000)	(73,000)	0.00	0	0	(73,000)	(73,000)
ES_01 - Eliminate Street Sweeping Contribution	12	0.00	0	0	(425,000)	(425,000)	0.00	0	0	(359,100)	(359,100)
ES_15 - Reduce Janitorial-Maintenance Srvcs at WPC	13	0.00	0	0	(60,000)	(60,000)	0.00	0	0	(60,000)	(60,000)
ES_18 - Reduce Electronics Records Management	14	0.00	0	0	(8,000)	(8,000)	0.00	0	0	(8,000)	(8,000)
ES_10 - Reduction of Ecoroof Engineering Support	15	0.00	0	0	(100,000)	(100,000)	0.00	0	0	(100,000)	(100,000)
ES_09 - Reduction in Portland Harbor Nat Res Trustee	16	0.00	0	0	(100,000)	(100,000)	0.00	0	0	(100,000)	(100,000)
ES_07 - Reduction of Portland Harbor Tech Ct Suppor	17	0.00	0	0	(100,000)	(100,000)	0.00	0	0	(100,000)	(100,000)
ES_08 - Reduction of Portland Harbor Legal Support	18	0.00	0	0	(100,000)	(100,000)	0.00	0	0	(100,000)	(100,000)
Total Reductions		*0.00*	*0*	*0*	*(2,286,040)*	*(2,286,040)*	*0.00*	*0*	*0*	*(2,172,740)*	*(2,172,740)*
Realignments											
ES_13 - Renegotiate Vector Control Lease Agreement	03	0.00	0	0	0	0	0.00	0	0	0	0
Total Realignments		*0.00*	*0*	*0*	*0*	*0*	*0.00*	*0*	*0*	*0*	*0*
Total Bureau of Environmental Services		**0.00**	**0**	**0**	**(2,286,040)**	**(2,286,040)**	**0.00**	**0**	**0**	**(2,172,740)**	**(2,172,740)**