



April 3, 2014¹

To: Honorable Members of the Portland City Council
 From: Janice Thompson, CUB Consumer Advocate for Portland Public Utilities
 Re: Updated BES 2015-16 Budget Improvements for Residential Ratepayers
 *Return to charging sanitary sewer system development charge allowed under state law
 *Improved cost recovery of fees

SANITARY SEWER SYSTEM DEVELOPMENT CHARGES

System development charges (SDC) allow BES to recover an equitable share of sanitary sewer and stormwater drainage facility costs from new development. State law provides guidance on determining SDCs and this process is explained in the annual BES Sewer System Rate Study. A key point is that determination of utility SDCs does not involve methodology development, rather it is a straightforward process based on economic calculations.

The sanitary sewer SDC was reduced in the fiscal year 2011-12 and frozen for fiscal year 2012-13, evidently due to the economic downturn. Since “catch up” steps have not been taken since those two fiscal years, the lost revenue between the allowed sanitary sewer SDC and the actual SDC charged to developers continues to increase as outlined in Table 1.

If the allowed sanitary sewer SDC had been charged in fiscal year 2013-14 the additional revenue raised would have been \$2.8 million. In the current fiscal year the lost revenue is expected to be more than \$2.5 million dollars. SDCs must be used to defray BES debt service or capital construction costs, but added resources directed to those purposes can relieve pressure for other uses of ratepayer dollars.

Table 1 – Reductions in Sanitary Sewer SDCs

FY	Allowed SDC	Allowed rate of increase	Reduction factor	Actual/reduced SDC	Actual rate of increase	Lost revenue per charge
2010-11	\$4,089	6.62%	n/a	\$4,089	6.62%	
2011-12	\$4,495	9.93%	96.9%	\$4,335	6.51%	\$160
2012-13	\$4,779	6.32%	95.9%	\$4,335	0.00%	\$444
2013-14	\$5,264	10.15%	86.5%	\$4,551	4.98%	\$713
2014-15	\$5,622	6.80%	85.0%	\$4,779	5.01%	\$843

In effect, BES ratepayers have subsidized developers that have not been charged the sanitary sewer SDCs allowed under state law since fiscal year 2011-12. CUB strongly recommends that the City Council return to its historic practice of charging the full SDC allowed under state law. CUB recommends phasing in this return to charging the legally allowed sanitary sewer SDCs over two fiscal years beginning with the fiscal year 2015-16 budget.

Evidently one concern about “catching up” sanitary sewer SDCs has been that the allowed rate of increase may be higher than the average residential rate increase. Such a concern, however, is based on a false and inappropriate equivalency between residential rate increases and SDC

¹ Table 1 now includes the correct FY 2012-13 actual/reduced SDC charge amount. That figure was provided by BES and CUB erred in its insertion in the original version of this table. Also, the summary on the second page now includes the .2% rate reduction information provided by BES at the April 2nd budget work session.

increases. After all if a residential customer requested that their sewer bill be reduced by the 85% reduction factor applied during the current fiscal year to sanitary sewer SDCs they would be turned down flat.

CUB recognizes that system development charges are a challenging topic, but our recommendation simply advocates returning to a previous policy. In other words this is not a matter of BES sanitary sewer SDCs having been lower than what is allowed by state law on an ongoing basis. The historical default position was that BES charged the sanitary sewer SDC to the full extent allowed under state law and it is time to return to that default position.

This is also not a complicated process for BES. All along BES has known what the allowed sanitary sewer SDC charge is shown in the second column of table 1. Adjusting these charges and reducing the subsequent budget and average residential ratepayer increase can be readily done by the bureau's financial services staff.

COST RECOVERY – BES FEES

BES charges developers building plan review and land use review fees at levels below full cost recovery. It is valid for full cost recovery to not be the goal because all ratepayers benefit when new users are added to the sewer system. This is akin to businesses forgoing full cost recovery for delivery services because free delivery helps attract new customers.

The question then is what level of cost recovery is appropriate to charge developers for building plan and land use review fees? CUB recommends an 80 to 90% cost recovery goal.

The recovery rate for building plan review and land use review fees was only 50% in fiscal year 2013-14 assuming a 80% cost recovery policy had been in place. This 30% shortfall is significant and is really a subsidy to developers since the difference is being absorbed by BES with a detrimental impact on ratepayers. For example, BES would have gotten about \$1 million more revenue in fiscal year 2013-14 with an 80% cost recovery of these building plan and land use review fees. Obviously building and land use permit related fees fluctuate so the additional revenue linked to a more appropriate level of cost recovery wouldn't be \$1 million on an ongoing basis. Fluctuations in this category of revenues also highlight the need for contingency planning which BES is discussing.

Another cost recovery shortfall pertains to permit fees charged by the industrial waste discharge program. Currently, these fees only cover 55% of direct costs. These direct costs include all labor expenses but not all overhead items. Moving to 100% recovery of these direct costs is an appropriate goal since BES will continue to cover indirect overhead costs related to these permits so the net cost recovery won't be 100%. On an annual basis this change is estimated to bring in about \$500,000 additional revenue.

It is not an option for BES to just spend less time reviewing building and land use plans or reduce the scope of its industrial waste discharge program. Such an approach would be penny wise and pound foolish because it could endanger meeting regulatory requirements that, in turn, can affect capital improvement planning. At the same time a one-time jump to the recommended cost recovery goals could be problematic and CUB recommends making these fee increases over two fiscal years beginning in the fiscal year 2015-16 budget.

Phasing in these fee increases and adjusting the budget and the average residential ratepayer increase can be readily done by the bureau's financial services staff.

Summary

During fiscal year 2013-14 BES revenues would have increased by \$4.3 million if sanitary sewer SDC charge had been the full amount allowed under state law and CUB's cost recovery recommendations for the BES fees discussed above had been adopted. The average residential rate could have been 5.1%, a .2% reduction from the actual 5.3% increase for that fiscal year. It is time to provide this rate relief and end this subsidy of developers by residential ratepayers. CUB is open to a reasonable timeline to end these subsidies, but it must be a certain timeline.