



March 29, 2016

To: Honorable members of the Portland City Council
From: Janice Thompson, Citizens' Utility Board of Oregon (CUB)
Re: CUB comments on requested budget for Bureau of Environmental Services

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Introduction

This is CUB's second memo related to the Bureau of Environmental Services (BES) budget for FY 2016-17. The first memo focused on CUB's suggestions to Commissioner Fish, BES, and the Portland Utility Board (PUB) regarding the development of BES's requested budget. That initial memo also included background information that seemed particularly helpful to the PUB.

This memo is to the Portland City Council but will also be shared with PWB leadership, the PUB and the City Budget Office (CBO). I thank staff from BES and Commissioner Fish's office for assistance with questions and appreciate the discussion on the requested budget by the PUB and in the CBO report.

Improve cost recovery of fees charged to developers to ensure environmental compliance

CUB is repeating a recommendation we made last spring that the City Council address a cost recovery gap in the fees that BES charges for their review of land use and building permits to ensure compliance with environmental standards. Only 47 percent of BES costs for review of land use and building permits were recovered in the last fiscal year, 2014-15, for which complete information is available. CUB recommends a 90 percent cost recovery rate and closing the cost recovery gap to this level would have increased revenue to BES by \$1,286,514 that fiscal year. This lost revenue is an inappropriate subsidy to developers and are dollars that should have been kept in the pockets of ratepayers. Closing this cost recovery gap will result in ongoing savings for ratepayers, but the amount of future revenue increases to BES will vary depending on the number of applications for land use and building plan reviews.

More customers is good for BES ratepayers overall and this is why CUB is not suggesting a 100 percent cost recovery approach regarding these land use and building plan review fees. Our thinking is akin to stores not charging customers for shipping costs since offering free shipping encourages repeat business. The analogy is not exact but still conveys the reasoning behind CUB not recommending full cost recovery. Ninety percent cost recovery seems appropriate, however, since less than that becomes an inappropriate subsidy to developers that is counter to the interests of ratepayers. CUB is open to

phasing in the fee increases to achieve ninety percent cost recovery over two years but this is not our preference.

As noted earlier, this cost recovery issue was raised by CUB last spring along with a recommendation that the City Council return to its historic practice of charging developers the full sewer system development charge allowed under state law. That practice had been changed during the economic downturn but with the building boom had clearly become an inappropriate subsidy for developers. In the FY 2015-16 budget, CUB's sewer system development charge recommendation was adopted. Not adopted last year is the recommendation we are raising again for cost recovery improvement regarding the fees paid by developers to cover BES costs for review of building and land use plans for compliance for environmental standards. We strongly recommend making this change in the FY 2016-17 BES budget.

Given that the number of land use and building permit applications fluctuates, CUB supports BES setting aside reserves when application levels are such that more dollars are received than are needed at that time to cover BES staff costs. These reserves could be used when application levels decline or when application levels increase to the extent that additional BES review capacity is needed. Ongoing review of reserve levels would be needed.

Biogas utilization and organic waste receiving facility

Background

Digesters like those at Columbia Boulevard Waste Treatment Plant (CBWTP) are a common feature of treatment plants that produce methane which is flared to reduce its greenhouse gas impact. Currently all but 23 percent of the methane produced at CBWTP goes to a cogeneration unit for onsite electricity use or is sold to a nearby industry. BES proposes a biogas utilization project so the un-used methane can be turned into marketable renewable natural gas (RNG).

CUB had two meetings with CBWTP staff about the biogas project last spring and summer and though very intrigued by the sustainability and revenue potentials for this project it was clear that there were timing issues regarding an anticipated memo of agreement between NW Natural and BES. At that point, however, this dynamic was a concern but not a red flag.

Last fall I met again with CBWTP staff to learn about a new CIP proposal for an organic waste receiving facility. The link between the biogas project and this new proposal is that planning for the biogas project indicated high costs for storage capacity that increased payback schedule estimates from 10 years to 16 years. Increasing the amount of biogas production, however, avoids the need for expensive storage capacity but requires additional digester feedstocks.

A particularly attractive feedstock option is processed food waste which is currently a solid waste industry disposal problem that could be transformed into a revenue source for BES through tipping fees and sale of more biogas. A private entity, Waste Management, is interested in building an organic food waste processing facility along Columbia Boulevard and CBWTP would be well positioned to raise revenue by building a facility to receive the processed food waste and then charge tipping fees and produce more RNG for sale.

This is a very intriguing partnership that might also get a boost from interest by Metro in addressing food waste from food service establishments. However, there were still many project elements to bring

into alignment so I appreciate BES addressing numerous questions from CUB at a meeting with CBWTP and other BES staff in January of this year.

Just last month, NW Natural decided on another partnership approach; they are interested in transporting RNG through its pipeline along Columbia Boulevard, but will not be a RNG buyer nor will they share costs with BES for the interconnection to the NW Natural pipeline. CUB appreciates a meeting with CBWTP staff earlier this month for a preliminary discussion of alternative options. For example, a robust market for RNG does exist outside of Oregon that is primarily driven by the monetization of environmental benefits and requirements to meet federal low carbon fuel standards. Opportunities in this market seem likely to improve the original economic evaluation of the biogas project, though increased revenue projections need to be balanced by NW Natural no longer sharing interconnection costs. There are also different risks linked to contract length and other factors that require careful evaluation of this different marketing strategy.

One recommendation and information needed to make second recommendation for FY 2016-17

CUB greatly appreciates BES staff for their time addressing our questions and concerns, especially since the information about NW Natural's shift away from their original proposal is so recent. CUB's conversations with BES will continue including communication about possible opportunities for CUB to be of assistance with project partners. In terms of the FY 2016-17 requested budget, however, CUB has one recommendation though it is made with the caveat that new information could shift our stance. A second recommendation will be made after information outlined below is available. To be clear it is the recent NW Natural shift in their approach that is affecting the availability of that information and not lack of attention by BES.

CUB recommends inclusion of the organic waste receiving facility into the CIP as requested because as a new entry the expenditure level in FY 2016-17 is low, \$63,000, and focuses on planning. More analysis is needed, especially on potential partnerships. During the upcoming fiscal year CUB recommends that BES emphasis identifying key decision points to facilitate ongoing assessment of the timing and scale of future spending on this project.

CUB is concerned about the timing of biogas expenditures - \$4.8 million in FY 2016-17 and \$4.9 million in FY 2017-18 - in the proposed CIP. BES now has a timeline that indicates that this scale of spending could begin towards the end of the upcoming fiscal year and we know it isn't uncommon for the timing of major project spending to shift. Nevertheless, CUB has two information needs before we can make a final recommendation on how this project should be handled in the current budget request.

The backdrop for these information needs is that this project is not being driven by regulations and isn't a typical BES effort. Rather this project addresses sustainability goals and is intended to earn revenue which is a benefit to ratepayers. CUB understands that spending money to make money is required, but we need the following information to see how long it will take for ratepayer investments to be paid off and the level of risk.

Information need #1=Updated payback schedule estimate

Earlier estimates for the biogas project were for a 10 year payback schedule but in the CIP request the project description indicates that "the project is expected to pay for itself over 10 to 20 year period." When this CIP request was written this broader payback schedule estimate was appropriate since key information from NW Natural was not available. Now that it is known that this partner has shifted to a transporter-only approach and that BES is shifting to buyers outside of Oregon in what seems to be a

more lucrative market, an updated payback schedule estimate is needed. The timing of CUB's last meeting with BES staff meant that this topic was discussed, but there hadn't been enough time for completion of an updated payback schedule estimate for that session. However, this information is needed for CUB to make a definitive recommendation on this project in the context of the current budget discussion.

Information need #2=Updated risk assessment

It seems likely that contracts in the market now being considered by BES will be more lucrative but also shorter in length than the original plan with NW Natural. CUB understands that this is an anticipated dynamic of the market now being assessed and appreciates that BES will not have firm information on contract details until it has conducted a request for proposal process. Nevertheless, a BES summary of anticipated contract dynamics and a preliminary risk assessment review is needed for CUB to make a definitive recommendation on this project in the context of the current budget discussion. We're not looking for a risk assessment with engineering exactness, but given the different RNG market now under consideration by BES a discussion of this topic is needed.

Once CUB has this information we can determine what is an acceptable payback schedule and what is an acceptable threshold of risk. Our inclination right now is to think a 20 year payback schedule is too long but we really need the information noted above to determine what would constitute an acceptable payback timeline. CUB also suggests that within the context of the current budget discussion, input is sought from Commissioner-in-Charge Fish on his views of acceptable risk and appropriate payback schedule.

Ongoing assessment

CUB would like to see the multiple elements involved in making the biogas and organic waste receiving facility projects fall into place with risk levels and payback schedules that benefit ratepayers. These kinds of projects occur at sewage treatment plants in other parts of the country so this innovation is becoming more routine. However, beyond any CUB recommendations for FY 2016-17, we will need to see information gleaned by incorporating key decision points into the timeline that BES has outlined for this spring and beyond. In other words, any recommendations CUB makes on these projects within the context of the FY 2016-17 budget process could be modified based on new information.

Decision packages

Overall CUB supports the decision packages but shares CBO concerns on several points while suggesting that they identify topics that may merit citywide discussion. We also want to highlight three themes in the decision packages.

Three themes

Stormwater management and private property partnerships: CUB has consistently supported the need for adequate resources for development of the Stormwater System Plan because it is this work by BES that will facilitate improved precision in CIP planning for stormwater management improvements. Partnerships for stormwater management on private property have been and will continue to be an important element of addressing stormwater issues. Action only on public property will not be enough. It is important to note that clear operation and maintenance agreements for private property projects are a key element of BES's approach.

Condition assessment: Cutting across several functional areas of BES is the need for evaluating the condition of the significant assets of this utility bureau. This is an important theme in the decision packages and a BES priority that merits financial support.

Regulatory drivers: Numerous environmental regulations are major drivers of work at BES. Given the importance of permit compliance, CUB supports the Water Resources Program Manager position intended to provide a needed focal point regarding permit management and coordination of permit related activities throughout the bureau. At the same time CUB shares the interest of CBO in assessing possible future staffing realignments linked to this new position.

CBO analysis identifies possible need for city wide discussions

Centralized Services: CUB is concerned about CBO's opposition adding an office support specialist to the Facilities and Administration Services division within the Business Services group. A suggested question by the City Council is to ask BES the extent to which not funding this request will result in backlogs due to unfinished administrative work and/or if there will be misallocation of resources due to higher level staff having to handle this administrative workload?

At the same time, CUB is concerned that the hiring and recruitment work envisioned for this office support staffer might be beyond the scope reasonably expected to be handled at the bureau level due to the possibility of reduced assistance from the centralized human resources unit within the Office of Management and Finance (OMF). CUB recognizes that budget constraints affect OMF but BES and other bureaus do pay for these types of centralized services through the general overhead model. For this reason, it may be helpful for the City Council to have a broader strategic conversation about citywide decentralization trends and the potential need to adjust the general overhead model accordingly.

Emergency management kits: CUB understands the interest of BES in providing critical staff with personal emergency kits but supports the CBO suggestion that this need should be assessed across all bureaus.

Conversion of limited term positions: CUB understands the use by BES of its administrative authority to create a limited term position without City Council approval to fill a need identified by the new BES director that hadn't been addressed in the budget he inherited. CUB also understands the CBO concern about using this approach and supports the suggested alternative that involves oversight entities and the City Council. Nevertheless, it seems like a citywide evaluation of this limited term position process would be strategic.