

Bureau of Environmental Services

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Bureau Performance



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In FY 2016-17, the bureau experienced robust revenues, pushing the fund balance of the Sewer System Rate Stabilization Fund to reach over \$100 million. While the bureau continues to experience considerable underspending of the capital budget, BES initiated a comprehensive review of its capital improvement planning process in FY 2016-17 to increase capital delivery. It is the bureau’s goal that this work, in addition to finalizing the bureau’s strategic plan, will put it in a stronger position to reach its capital goals in the next few years. CBO notes that given the bureau’s conservative revenue assumptions, robust retail revenue, and lower than anticipated capital expenditures, the bureau is in a unique position to maintain or potentially lower the rate of increase from its current forecast of 2.95%.

Performance Measures

There continues to be little variance in the bureau’s performance when compared to prior years, indicating that the bureau is maintaining stability in its performance measures. For example, the

bureau had zero combined sewer overflow (CSO) violations in FY 2016-17, maintained its Watershed Health Index for water quality and met or exceeded the bureau's debt service coverage ratios. While the bureau's key performance measures (KPM)s represent core functions, few illustrate whether the services provided are effective at achieving the desired service levels. Further, many of the bureau's performance measures appear to have flatlined because either: 1) the target is consistently met at an acceptable level of service; or 2) the targets are set below the bureau's capacity.

Over the past year, BES has made significant progress on its strategic plan and has had early discussions about establishing metrics to measure the effectiveness of the strategic plan. As the bureau moves to implement its strategic plan, CBO recommends that BES consider revising its KPMs to better align with the bureau's mission, vision and values, including measuring the effectiveness of recent investments at the bureau, such as those related to equity, workforce development and the capital improvement planning process.

Below are some notable performance trends from FY 2016-17:

The number of sanitary system overflows (SSOs) increased from 134 SSOs in FY 2015-16 to 180 in FY 2016-17. This figure was above the bureau's target of 120 SSOs in FY 2016-17. The bureau asserts that this increase was primarily a result of above average significant rainfall events. These events are drivers of sanitary sewer overflows as the conveyance system experiences blockages – particularly during high-wind and early-season events when debris from leaves play a larger role. All SSO events are a violation of the NPDES permits, however, the KPM is based on an industry standard of the number of SSOs per mile of sewer line. Regulators use discretion to issue enforcement actions for these permit violations. That discretion includes the volume and severity of the SSO, the number of SSOs, and the City's response to SSO events.

The number of combined sewer overflow (CSO) events has remained low with 7 CSO events in FY 2016-17 compared to the 50+ events that occurred annually before the completion of the Big Pipe project in 2011; the Big Pipe's completion finished a 20-year program to eliminate about 95% of Portland's combined sewer overflows. While the number of CSOs that occurred in FY 2016-17 is historically low (seven CSO events occurred in FY 2016-17), the figure is above the five events that occurred in FY 2015-16 and greater than the annual target of four. While the target is set at four, the actual number is dependent on weather events.

The bureau reports that last year's water year (a "water year" runs from October-September) was the fourth wettest on record with two months in FY 2016-17 experiencing more than 4 billion gallons of flow at the Columbia Boulevard Wastewater Treatment Plant (CBWTP). According to the bureau, recorded flows have exceeded 4 billion gallons in one month only four times at the CBWTP, two of which occurred last year. CBO notes that while the bureau's KPMs for CSO and SSO events are good system level measures, measures on the number of combined sewer overflow and SSO violations is also important. The bureau has had zero CSO violations since 2011 and one enforcement action from DEQ during FY 2016-17. This was a Warning Letter with Opportunity to Correct (WLOTTC), which carries no civil penalty.

As discussed in recent budget reviews, the bureau’s affordability metric, typical household bill as a percent of median household income, has been expected to continue increasing for the near term. In FY 2016-17, the figure is slightly less than the target as the median income increased while the average single-family household bill grew higher. CBO notes that the bureau has discussed conducting a rate study in 2018 to update rates, fees, and development charges. If the bureau moves forward with the study, it will be interesting to see how the findings could impact rates and the bureau’s affordability metric.

Bureau Finances: Budget-to-Actuals and Key Issues

Sewer Operating Fund

Sewer Operating Fund		Revised Budget	Year-End Actuals	Variance	% of Budget
Resources	Budgeted Beginning Fund Balance	\$ 69,180,000	\$ 61,874,477	\$ 7,305,523	89%
	Taxes	-	-	-	N/A
	Licenses & Permits	2,295,000	2,248,625	46,375	98%
	Charges for Services	371,835,000	365,102,907	6,732,093	98%
	Intergovernmental Revenues	140,755	209,077	(68,322)	149%
	Interagency Revenue	2,047,621	1,388,249	659,372	68%
	Fund Transfers - Revenue	121,436,508	98,752,841	22,683,667	81%
	Bond and Note	-	-	-	N/A
	Miscellaneous	1,405,000	1,724,433	(319,433)	123%
	General Fund Discretionary & Overhead	-	-	-	N/A
Revenue		\$ 568,339,884	\$ 531,300,609	\$ 37,039,275	93%
Requirements	Personnel Services	\$ 66,735,051	\$ 63,868,793	\$ 2,866,258	96%
	External Materials and Services	58,012,845	54,970,229	3,042,616	95%
	Internal Materials and Services	42,737,344	37,950,976	4,786,368	89%
	Capital Outlay	73,866,331	56,018,995	17,847,336	76%
	Bond Expenses	3,261,971	3,195,000	66,971	98%
	Fund Transfers - Expense	252,117,332	252,071,480	45,852	100%
	Contingency	71,429,010	63,225,136	8,203,874	89%
	Unappropriated Fund Balance	180,000	-	180,000	0%
Expenses		\$ 568,339,884	\$ 531,300,609	\$ 37,039,275	93%

As in the past several years, the Sewer System Operating Fund continued to underspend its budget and revenue exceeded targets.

Revenues

During FY 2016-17, the bureau revised its budget and increased planned charges for services revenue from \$344.7 million to \$371.8 million. While the bureau came in under its revised budget for this resource, the bureau continued to exceed expectations with \$20.4 million more in planned revenue compared to the FY 2016-17 Adopted Budget. This increase was driven primarily by greater than anticipated SDC revenue.

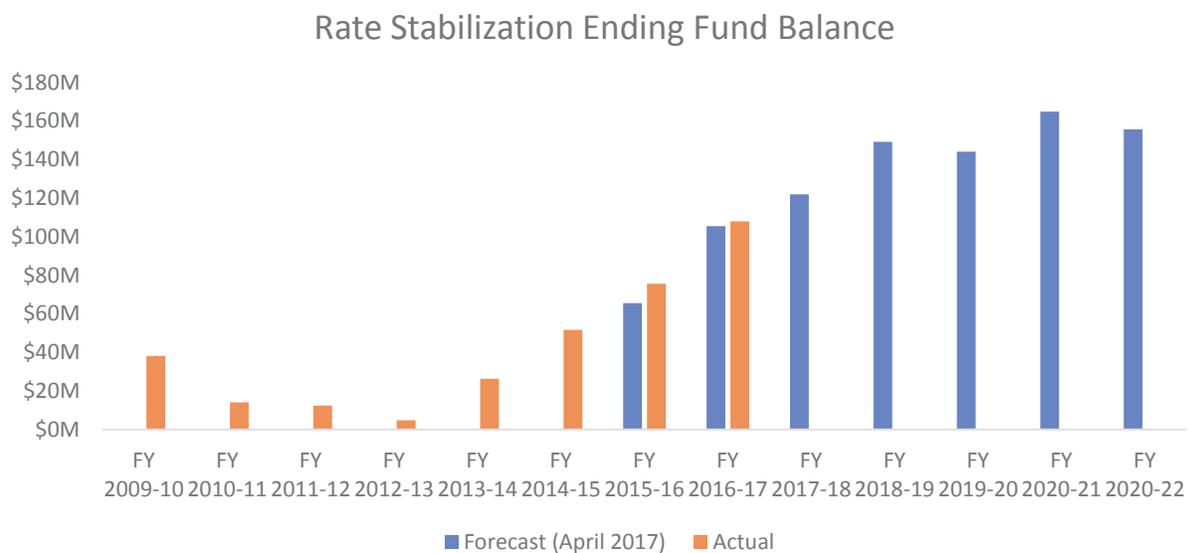
Unlike charges for service revenue, the bureau under-collected revenue in some areas. Interagency revenues, which represents revenue from work performed for other City bureaus was 68% of the

bureau’s Revised Budget for that work. Examples of services provided by the bureau include brownfield remediation, engineering services, and revegetation services. The bureau attributes a majority of the variance to Parks and PBOT overbudgeting BES engineering services. Further, fund transfer revenue was 81% of the bureau’s Revised Budget or \$22.7 million less than planned. This variance is driven by CIP expenditures coming in under budget which reduced the planned fund transfer from the Sewer Construction Fund to the Sewer Operating Fund to reimburse for capital expenses.

Expenses

On the expense side, the bureau continued to underspend its budget with capital outlay representing a majority of the variance in the operating fund. In total, the bureau spent \$56 million in capital outlay, resulting in \$17.8 million in underspending because of capital project delays. Another area where the bureau had significant underspending was Internal Materials and Services (IMS). By year end, IMS was 89% of the Revised Budget with the bureau spending \$37.9 million of the \$42.7 million budgeted for this work. \$2.6 million of the variance is from the bureau’s IA with PBOT for sewer and stormwater maintenance. The bureau attributes this underspending to winter storms which diverted PBOT maintenance staff to other priorities. Capital project delays also contributed to IMS underspending as only half of the \$2.1 million budgeted for survey services was expended.

Rate Stabilization Ending Fund Balance



The bureau’s Sewer System Rate Stabilization Fund balance grew \$32.3 million from \$75.7 million to \$108 million in FY 2016-17. The ending fund balance was \$11.2 million higher than the \$96.8 million in the Revised Budget. The growth of the fund is due to many factors; however, the primary drivers are robust retail revenue, growth in System Development Charges, conservative revenue budgeting, and lower than anticipated capital improvement project expenditures.

CBO anticipates that the business process review to improve capital project delivery and the implementation of the bureau's strategic plan will decrease the amount of unspent capital expenditures falling to balance in the next few years. However, given the bureau's conservative revenue assumptions, robust retail revenue, and lower than anticipated capital expenditures, CBO notes that the Rate Stabilization Fund could result in a larger than projected fund balances in the near term. Thus, the bureau is in a unique position to use these funds to potentially lower the rate of increase from its current forecast of 2.95% and/or increase the share of capital financed with cash, lowering future debt service costs.

Capital

The bureau continues to experience considerable underspending of its capital budget as the project delivery structure adjusts to a post-Big Pipe program. In FY 2016-17, capital outlay expenditures were only 76% of the bureau's FY 2016-17 Revised Budget and 80% of its total capital improvement plan budget. To improve the delivery and oversight of the capital program, the bureau is undergoing a comprehensive review of its capital improvement planning process. Given the priority of this work at the bureau, CBO encourages BES to expand its KPMs to include capital output related measures. Adding measures that reflect this work will help align the KPMs with the bureau's current priorities as well as measure the effectiveness of the bureau's strategies to improve the delivery and oversight of its capital improvement program.

The underspending is attributable to the following:

- \$9.4 million underspending for Phase II Pipe Rehabilitation because of slower than anticipated start dates;
- \$7 million underspending for Slabtown Sewer Replacement due to delays in the review and comment period which impacted the procurement schedule.;
- \$2.1 million underspending for Alder Basins related to pending issues with utility protection and implementation of new PBOT restoration requirements;
- \$2.0 million underspending for Rehab/Repair/Modification Program due to delays in procurement; and
- \$1.5 million underspending for Alder Pump Station Update related to procurement delays.