

**FINAL REPORT
TO THE PORTLAND CITY COUNCIL**

**AN INVESTIGATION OF FINANCING PRINCIPLES
AND OPTIONS FOR THE MID-COUNTY SEWER PROJECT**

**The Mid-County Sewer Project Cost Alternatives Task Force
December 31, 1991**

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- 2) Jane, Rosemary; "Continuing Citizen Involvement"
- 3) Phegley, Dan; "Affordability Findings and Recommendations"

SUMMARY

The Task Force concludes that substantial changes can and should be made in financing the Mid-County Sewer Project. This conclusion is based on the following findings:

1. **Affordability** - The Mid-County Sewer Project is unaffordable to a majority of single family homeowners;
2. **Equity** - The average assessment for single family homeowners is inequitable, considering the benefit received, and in comparison to what other citizens in the Portland Metropolitan area have been asked to pay for their sewers;
3. **Uncertainty** - There is excessive uncertainty over cost increases for citizens who will be asked to hook up to the system in the future; and
4. **Construction Costs** - Construction savings may be achieved through acceleration of the project and by shifting from a Local Improvement District (LID) method of financing and construction to a single Capital Improvement Program (CIP) for the entire project.

In light of these findings we recommend that the following financial changes be made in the Mid-County Sewer Project:

1. Convert the Mid-County Sewer Project to a CIP (Capital Improvement Project), with in-lieu assessment rates that do not exceed a \$3,000 fixed cap for single-family homeowners;
2. Allow future sewer customers in the Mid-County area to pre-pay their assessment;
3. Develop a mechanism to provide a financial benefit equal to the State Income Tax Credit to property owners who do not pay income taxes, modeled after the Homeowners and Renters Relief Program (HARRP) for senior citizens;
4. Encourage the State to increase the amount of financial benefit given to each homeowner through the State Income Tax Credit and other mechanisms;

5. Expand the low-interest loan program to finance private plumbing costs for low-income homeowners;
6. Employ an independent organization to review the construction and administration of the project; and
7. Apply all financing changes, including the cap and income-based aid, retroactively within the project area.

Recommendations that Require Further Investigation:

8. Evaluate financial strategies used for the Mid-County Sewer Project for applicability to projects in other parts of the City;
9. Investigate possible project cost savings by accelerating the construction schedule;
10. Determine the feasibility of setting assessment charges for each property on an "Equivalent Dwelling Unit" (EDU) method and eliminate the current square footage assessment. The intent of this strategy is to re-orient the principle of sewer construction cost allocation towards a use basis, which is more equitable for single family property owners;
11. Investigate the feasibility of limiting safely net liens to the original principal amount without accruing interest, to prevent erosion of homeowner equity;
12. Immediately begin a study of the impact of the recommended cost cap on multi-family use properties, schools, churches, and other non-profit organizations, to determine appropriate relief measures, including a cost cap, for such users; and
13. The financing of the CSO project should take into account the charges already assessed residents for the Mid-County Sewer Project. The CSO Mid-County sewers and all such regional problems should be dealt with on a region-wide basis, with a view towards what is equitable for all ratepayers. If Mid-County ratepayers are not granted the specific relief recommended in this report, we recommend that Mid-County ratepayers be exempted from any assessments or monthly rate charges for the CSO project.
14. The City should explore the availability of EPA sewer grants.

INTRODUCTION

The Mid-County Sewer Project Cost Alternatives Task Force ("Task Force") was created by resolution of the Portland City Council in May, 1991, to examine the financing concerns of one of the largest sewer projects ever undertaken in a previously developed urban area in the United States. The City Council gave us three and one half months to evaluate financing options for a \$484 million public works project. The Council resolution directed us to stay within a specific scope of work: to evaluate previously established assessment policies and project financing principles; to review cost concerns; and to recommend alternative financing options for the Mid-County Sewer Project, in isolation from outside factors which might affect it. We did so, but with some amount of anxiety.

The single most important "outside factor" we encountered is the Combined Sewer Overflow (CSO) project. The CSO project, with projected costs of up to \$1 billion, was beyond our defined scope of work; however, the CSO project has already had and will have a much greater future effect on the financing and equity issues we were asked to address for Mid-County and all Bureau of Environmental Services (BES) ratepayers. Water quality issues are being addressed piece-meal. We believe the Mid-County and CSO projects are region-wide problems that should be treated as such. Attempts to resolve these regional problems in isolation, we believe, distorts reality, leads to inequitable treatment of certain ratepayers, and fosters the "east-side versus west-side" fractionization of our community.

We submit our recommendations to the Council two months past the timeline set for us. These were two months well spent. The additional time allowed us to thoroughly discuss our recommendations with the public. We also received more detailed data and statistical analyses from economic consultants hired for our effort, and from City staff. This additional information gave us greater awareness of the financial effect our recommendations would have on new customers to the sewer system and on those property owners and rate payers in other parts of the city or metropolitan region.

The summary highlights our findings in the areas of **affordability, equity, uncertainty and construction costs**. The summary also includes our major recommendations. A detailed discussion of each of the areas we studied and of our recommendations concludes our report, which follows this introductory section.

The appendices include the three minority reports which were written by Task Force members who wanted to respond to our preliminary report produced on November 1st. David Nelsen's minority report, "Outline of Five Recommendations for Solving the

Inequities of Current Financing", became a major source for all of us as we wrestled with decisions about endorsing a sewer assessment cap. Nelsen also gave us the inspiration to creatively examine the concept of EDUs (equivalent dwelling units/estimated daily use).

A second minority report, **"Continuing Citizen Involvement",** was prepared by Task Force member Rosemary Jane who urged that the ongoing citizen role in this large process become more effective. The third minority report, **"Affordability Issues and Recommendations"** was filed by Dan Phegley.

We hope this report assists the people of Portland and the City Council in its review of the Mid-County Sewer Project. We thank the Council for the opportunity to have served our community.

HISTORY AND STATUS

Sewer Project Background

In 1986, when Portland was ordered by the Oregon Environmental Quality Commission to install sewers in the Mid-County area, the City Council passed Resolution 34053 that established how the project would be financed. The primary underlying rationale of this resolution, as with the majority of previous sewer projects, was that sewer costs for new customers to Portland's sewer system should not be shared by the existing customers in the system. Three factors were implicit in applying this rationale to the Mid-County project:

1. No outside funding had been secured for the project and it appeared that little would be available because of the withdrawal of federal funds;
2. Sewer services traditionally have been a cost of property ownership and ultimately reflect in the value of the property served; and
3. Recognizing that the affordability of new sewers was a key factor in carrying out the project responsibly, the City Council further directed the staff to develop a Sewer Safety Net to allow low-income property owners the option of deferring sewer costs until the sale of their property and to expand the payment options under the City's low interest loan program to allow sewer cost repayment to be spread over a longer period of time.

Current Sewer Project Status

The project is now in the fifth year of a planned seventeen year life. The Sewer Safety Net, which is funded by the State Department of Environmental Quality, has been available since 1987 offering deferred payment loans and connection deferrals to eligible property owners. The City loan program for assessment and hookup charges has been expanded to allow sewer costs to be paid monthly at variable lengths of terms. At the current rate of 7.8% interest for a twenty year length of term, the approximate monthly cost is \$8 for every \$1000 borrowed; at ten years, \$12 for every \$1000 borrowed; at fifteen years, \$9.50 for every \$1000 borrowed. There is no program to finance private plumbing costs, except for very low income residents.

The 1987 State Legislature enacted a State Income Tax Credit for sewer connection expenses, currently \$800 (\$160 per year for five years, available only to individuals who file income taxes). According to the "Straighttalk" public information brochure prepared

by the Mid-County Sewer Project Office in the Fall of 1991, the current total cost estimate for a 7,000 square foot lot ranges between \$7,815 and \$8,615 for the sewer assessment, connection fee and private plumbing.

To date, 14,000 property owners have connected to sewers in Mid-County, 6,334 of these since 1987. Between now and the completion of the project, an additional 39,500 properties will connect. In the past several months there have been a number of sewer assessment actions which the City Council has delayed taking action on until it formally considers financing alternatives for the sewer project.

Task Force Purpose

Toward the end of 1990, the Portland Organizing Project (POP) expressed concern that proposed sewer costs were unaffordable to many Englewood Sewer District residents. (Englewood was one of 40 Local Improvements Districts set up to accomplish the Mid-County Sewer Project.) POP asked the City to study ways that sewer costs could be reduced, including an expansion of the Sewer Safety Net, an increased State Income Tax Credit, a cap on sewer costs, and a subsidy from Bull Run water users or sewer system users. These proposals were made to shift part of the cost of Mid-County sewers to a larger base of taxpayers or ratepayers, all of whom share some benefit in the resulting presumably cleaner groundwater.

Council determined that the underlying policies and principles of the financing program should be re-examined on a regular basis to ensure that financing practices remain fair, effective, and meet the objectives of the program as well as the needs of citizens. Council also called for a review of current project costs and an evaluation of other financing options to ensure that the assessments charged to property owners are reasonable and fair. Modification to assessment practices, if appropriate, was another issue Council wished explored.

To accomplish these actions, Council established the Mid-County Sewer Project Cost Alternatives Task Force through Resolution No. 34855 on May 22, 1991, which is attached as Appendix A. Council specifically requested a broad based representation on the Task Force to engage the thinking of new sewer customers from the Mid-County area and existing sewer/water customers from Mid-County and non Mid-County areas.

Citizen groups were asked to send a representative to sit on the Task Force including: Portland Organizing Project (POP); East County Coordinating Committee (ECCCO); East Portland District Coalition (EPDC); Human Solutions, the Mid-County Sewer Project Citizens Advisory Board; the Portland Bureau Advisory Coordinating Committee; the

Bureau of Environmental Services Bureau Advisory Committee, and the Water Bureau Advisory Committee. Each member of City Council appointed one Task Force participant. Carol Berkley was retained as Task Force staff. Appendix B is a list of Task Force members, who they represent, and their qualifications.

Task Force Process

The Task Force conducted twelve formal meetings between July 16 and December 27, 1991. Our four subcommittees - **Equity, Affordability, Construction Cost, and Customer Uncertainty** - met an average of five times each. Two public hearings took place in September to hear from concerned citizens, and a third public hearing occurred in November to take public comment on our preliminary recommendations.

The public was encouraged to participate in our activities. During the first three formal meetings, the public was invited to offer its comments to our group. Citizens attended our facilitation sessions and many Task Force members spent countless hours of time talking with people who wanted to discuss the sewer project. The two public hearings that were conducted in September resulted in a combined attendance of approximately 400 people. The first public hearing was televised by cable six times between September 14 and October 11. The meeting on November 12 to hear comments on our preliminary report was attended by 400 citizens. People were also encouraged to send their written testimony to the Task Force. A list of all people who provided testimony in writing and orally is included in Appendix C.

About three-fourths of the way into our work, the Task Force conducted a four hour session with facilitator Joe Hertzberg to determine the extent of task force member consensus on proposed changes in financing of the sewer project. Thereafter, consulting attorney Richard Forester and urban economist Sonny Conder were retained to provide technical analysis of financing issues.

On November 1, 1991, the Task Force distributed a preliminary report to the public for review and comment. The results of that review offered the Task Force a wealth of response from citizens, City Council and City staff. The staff of the Bureau of Environmental Services (BES) and the Office of Finance and Administration (OFA) collaborated on a financial analysis of a number of alternative funding scenarios. After reviewing these scenarios, a group of Task Force members prepared final recommendations which they brought to the entire group for approval. The result is this report.

Public organizations interested in the sewer project were asked to serve as repositories for reports, minutes and other public records being generated by the Task Force. The

groups who were involved included East County Coordinating Committee, Portland Organizing Project, East Portland District Coalition, Southeast Uplift, and Associated General Contractors. Information was also sent to Central Northeast Neighbors and to a representative from United Citizens. The Task Force also established other repositories throughout the community. Locations of repositories and lists of documents prepared for and referenced by the Task Force are in Appendix D.

A directory for the Task Force allowed project staff to notify people who wanted to be kept informed. Notice of the final report transmitted to Council was sent to over 600 individuals and groups in the directory.

"The Oregonian" participated in the public dialogue by publishing a series of stories about the Task Force's activities between July 16 and October 31. The media's interest in the sewer project grew as City Council members, political candidates, and public interest groups announced their positions on the sewer financing program. News stories were also featured during this time on local network television and radio.

FINDINGS

1. AFFORDABILITY

The Task Force concludes that the Mid-County Sewer Project is **unaffordable** to a majority of the residents in the project area. In stating this conclusion we are not saying that the project is unaffordable in the narrow sense that a majority of rate payers are unable or unwilling to meet their sewer assessment obligation. We find that the project is unaffordable because: 1) The average homeowner is currently and will be in future required to pay an excessive amount of his or her disposable income for this project; and 2) the total cost of assessments, hook-ups, and private plumbing exceeds various indices that have been used in the past to determine affordability.

Unafforability as a Macro-economic Statistical Measure - Our finding that the Mid-County Sewer Project is unaffordable cannot be measured in terms of whether the residents of the affected area are somehow able to pay their monthly sewer bills. Measured by this narrow criterion, the Mid-County Sewer Project seems affordable. Nearly 35% of the assessments in the Mid-County Sewer Project area have been paid off in full at the time of assessment. As of August 1991, only 3% of the new sewer users were taking advantage of the sewer Safety Net deferral program, and in terms of total assessment dollars, only 4% were delinquent.¹ Historically, long term delinquencies are low, however the public testimony indicates that a high percentage of residents are using education funds, long term reserves or borrowing an unwise amount to pay for sewer costs.

Affordability and Disposable Income - The cost of assessments, hook-ups, and private plumbing for Mid-County Sewer Project residents consumes a larger percentage of disposable income than what Portland residents have in the past been asked to pay. There are three factors which have contributed to this squeeze in Mid-County residents' disposable income. First, on a nation-wide basis the percentage of **nondiscretionary** household income spent in the 1986-1990 period on housing, medical care, business services (i.e., legal fees, brokerage fees, etc.), food, energy and other costs has increased by nearly 5% over the amount spent on such items in the 1971-1975 period.² Second, an increasingly stringent regulatory environment has added substantially to the overall costs of building and maintaining local sewage disposal systems. Finally, there

¹ City of Portland; City Auditor's Office; Assessment Division; Vizzini, Daniel G.; "Assessment Financing Status Report"; August 1991.

² New York Times, Tuesday, September 24, 1991.

is less support today from federal and state agencies for building sewer systems than there has been in the past.

Affordability Indices - Various indices have been used in the past to measure the affordability of water pollution control projects. For example, two reports recommend annual costs per household at 1.5% of median household income. Another recommended 1.75% of gross annual income maximum.³ In 1990, according to the Bureau of Environmental Services, the gross median income in the project area is approximately \$30,000. Thus the average resident in the project area is now paying in excess of 5.2% of gross annual income.

After examining three different affordability studies,⁴ and different affordability indices, our Affordability Subcommittee concluded that the Mid-County Sewer Project is unaffordable. The Task Force as a whole **unanimously agreed that the current project is unaffordable.**

2. EQUITY

Are Mid-County Residents "Paying Twice" for Their Sewage Disposal System?

The objective of the municipal sewer system is to remove and treat effluent generated by residential, commercial, and industrial properties. Septic tanks and cesspools are alternative disposal systems that, for many years, received government sanction. In the urban areas of Portland, the city worked with property owners to develop treatment plants, trunks, and a collector system to meet the disposal objective. In Mid-County, the government approved the use of cesspools and septic tanks as an alternative.

Thus, Mid-County residents have already paid once for a sewage disposal system that was approved and required by government. This fact undercuts one argument frequently cited in support of the current Mid-County sewer financing scheme, i.e., everyone else paid for their sewer system, so Mid-County residents should pay for theirs. The Task Force agreed that requiring Mid-County residents to pay twice for sewage disposal is

³ United States Environmental Protection Agency; "Environmental Protection Agency Construction Grants (CCG-85)"; 1985, p.2; CH2M Hill; Multnomah County; "Final Report Sewerage Facilities Financing Plan"; December 1981; pp. 4-30; Multnomah County, Oregon; "East County Sewer Report"; January 1982, pp. 17-18.

⁴ City of Portland; Bureau of Environmental Services; Staff Report; "Portland Mid County Sewer Project Affordability Analysis Update"; April 1991; East County Sanitary Sewer Consortium; CH2M Hill; Mid-Multnomah County Sewer Implementation Plan, Volume I and II"; September 1985; Multnomah County, Oregon; "East County Sewer Report"; January 1982.

inequitable, especially considering the reason for the mandated project: clean groundwater for everyone in the region.

Regional Benefits of Cleaner Groundwater; Specific Benefits to Mid-County Residents

Given that cleaner groundwater benefits all regional water users, the entire region should pay some portion of the Mid-County Sewer Project cost. Mid-County residents cannot expect to be relieved of all cost because they are being relieved of the responsibility to maintain and eventually replace their cesspools. Fairness dictates that Mid-County residents should pay only for the specific benefit they receive, and pay an appropriate share of the cost of the general benefit to all region-wide water users.

Stated another way by one of our Task Force members, Mid-County residents were in essence being asked to purchase equity in a community asset, without a clear definition of the value of the existing system or who had contributed to the value of the system previously. Equity would suggest that Mid-County residents should 1) contribute no more or less than current residents had contributed to the system; and 2) pay no more or less than their requisite share in the current equity value of the system. With the value of the existing system in question, given its CSO (Combined Sewer Overflow) liability and unknown repair cost, it is particularly inequitable to require Mid-County residents to pay their current assessment level.

It has also been argued that individual property owners should pay for their sewers because sewers increase the value of their property. Property values do increase when sewers are provided to an unimproved property. There is no evidence, however, that single-family homes on sewers sell for more than single family homes on cesspools, all other factors equal. This brings to light the basic point that this project is very different than other sewer projects, i.e., it is being constructed in an already urbanized area, which prevents the specific benefit of property value increases from occurring to individuals in the area.

"Polluter Pays" Is an Inappropriate Justification for Imposing Project Costs on Mid-County Residents

It has been said many times that the polluter pays, but this is not true. Businesses in the area which will be paying assessments will either depreciate or expense their cost, passing on as much as 40 percent of the cost through the tax structure to all taxpayers. In addition, businesses have an opportunity to raise prices to recapture costs not recouped through the tax system, and therefore may be able to avoid the entire cost of the project. Single family homeowners do not enjoy either cost avoidance opportunity.

The tax structure precludes this type of deduction for the individual taxpayer, and there is no evidence that home values in the affected area will increase because of this project.

Moreover, our society has never fully embraced the "polluter pays" theory. For example, mass transit programs such as MAX are paid for by the general population, not automobile owners who use the contiguous freeways.

Conclusion

The discussion of issues presented above regarding equity is a sampling of the issues treated by the Task Force as it proceeded to the conclusion that to require Mid-County residents to bear virtually the entire cost of this sewer project is inequitable.

Thus the Task Force concluded in its preliminary report that **"some portion of the sewer project cost be allocated outside the project area."**

The specific amount is identified in the Recommendations section of this report.

3. CUSTOMER UNCERTAINTY

Background

The Mid-County Sewer Project has a proposed 17 year life. In a project of this duration, many conditions present at the beginning of the project can be expected to change over time. In the first five years of the project, interest rates, construction practices, construction costs, household incomes and financing alternatives have all changed. The project was designed around 40 small Local Improvement Districts (LID), each of which was formed when a given area was about to receive its sewers. Because each LID has its own costs structure, and is subject to cost increases, property owners in the Mid-County project district are subject to great uncertainty regarding their future costs. This feature of the Mid-County project places an onerous burden on the residents of the area. This cost uncertainty was a major theme of testimony given in the public hearings, and is addressed in the Task Force Customer Uncertainty Subcommittee Report.⁵

⁵ City of Portland; Mid County Sewer Project Cost Alternatives Task Force; Customer Uncertainty and Risk Subcommittee; "Mission Statement and Draft Report on Customer Uncertainty and Risk"; September 1991.

Analysis

Typically, a Local Improvement District is formed to meet a specific objective and the planning, financing arrangements, and construction occur within a one to three year period. Within this short time frame, those individuals involved in the project know not only the time frame, but also the approximate cost with a reasonable degree of certainty.

In the view of the Task Force, the size, scope and duration of the Mid-County Sewer Project does not lend itself well to the LID process. Installing 500 miles of sewers, digging up every street in Mid-County, asking 53,500 property owners to pay costs and connect to the new sewer is no simple LID-type project. Asking project customers to manage all of this risk and bear future uncertainty is asking too much.

As evidence of the problem, at the inception of the Mid-County project in 1986, the probable cost was stated to be approximately \$.35 per square foot for installed sewers. By 1991 the cost had escalated to as high as \$.70 per square foot. While the eventual timing of each segment of the project is generally known, the residents do not know what their eventual costs will be. With costs increasing nearly 100 percent (in some cases) during the first five years of the project, and the total cost of assessments, connection fees, and private plumbing now in excess of \$10,000 for some residents, current and future cost uncertainty is a major problem of this project and for Mid-County residents.

Conclusion

One of the primary recommendations of the Task Force is that uncertain future costs must be controlled. Using a combination of "in lieu" payments and Capital Improvement Project financing mechanisms, individuals in the area can pay today's cost "now," whether they are hooked up to municipal sewers one year in the future or fifteen years in the future. We recognize that this financing method shifts the risk of future cost increases onto the Bureau of Environmental Services (BES), --and thus onto all ratepayers. This shifting of risk is consistent with the Task Force's view that this project should be dealt with on a region-wide basis, not by Mid-County residents in forced isolation.

4. CONSTRUCTION COSTS

The task given to our Construction Cost Subcommittee was "to determine if the project is being managed to achieve the lowest possible construction costs consistent with quality construction, and comparable similar sewer projects".

The subcommittee addressed the issues discussed in the following paragraphs. These issues explored all of the known possibilities for cost control in design and construction practice.

Because of rapidly evolving technology, the first issue addressed was whether the project is using appropriate design and construction criteria. The subcommittee found that the project is being designed in accordance with minimum design standards as set by State and Federal requirements, and in accordance with good engineering practices. The project has a design life of 100 years. The subcommittee determined that the project is using the best available technology and that the use of this technology is producing substantial cost savings, both in the selection of construction materials and in the design of project facilities. The construction specifications have also been written to encourage contractors to use innovative cost saving construction methods.

The subcommittee next examined the propriety of the planning and bid processes. The subcommittee found that the Oregon Department of Environmental Quality and Federal Environmental Protection Agency review and approve all plans and specifications prior to bidding, and also review and approve the bid documents before the contract is awarded by the City Council. The Mid-County Staff has worked with the Department of Environmental Quality to eliminate some inappropriate and costly State standards.

The subcommittee also tried to evaluate the reasonableness of construction costs for this project. Construction bid prices are closely related to the level of construction activity in an area, rising as the general work level increases. The subcommittee found that the sewer construction cost increases on this project generally matched regional construction cost trends as reported in the Engineering News Record, though they are rising at a faster rate than the Seattle E.N.R. index, especially in 1989 and 1990.⁶ In an effort to compare costs with a more widely known index, a second graph was reviewed comparing construction cost increases to the Consumer Price Index.⁷ This graph generated considerable public controversy. The graph may be technically correct, but inadvertently presented the data in a format which could easily confuse a casual observer.

In reviewing project scheduling and sequencing criteria, the subcommittee found that the project has been scheduled for completion by the year 2005 and that scheduling has been done to provide a relatively uniform annual workflow. The subcommittee also found

⁶ Engineering News Record; **ENR Index vs 7000 Assessment Costs (Used Seattle ENR Index to 1979)**; Graph from 1960 to 1990.

⁷ City of Portland; Mid County Sewer Project Cost Alternatives Task Force; **"Media Clipping File for the Task Force"**; August 1991 to November 1991.

that there were potential cost savings if the work was designed and built in larger units and at an accelerated pace. It consequently recommended a more detailed examination of these ideas.

The subcommittee reviewed the project bidding history to determine if the construction bids have been competitive. It found that there have been 92 bids submitted by 19 separate bidders on the 15 jobs assigned to contractors to date, an average of six bidders per job. The number of bidders on each job has ranged from four to eleven.⁸ This level of bidding activity indicated a competitive bidding environment.

The subcommittee looked for comparable projects in the northwest. Only one similar project was found, in Pierce County, Washington. This project, built in 1983 and 1984, received an 80 million dollar Federal grant and the total construction cost was 180 million dollars. The average assessment on this project was approximately \$3500, after being reduced by the grant. The average assessment without grant funds would have been \$4900 in 1983 dollars. Not surprisingly, the scope of work for the Mid-County and Pierce County projects was not the same. Therefore, direct comparison of the Mid-County project with the Pierce County project or any other project is problematic.

A review of previous studies of these issues showed that construction on the project was stopped in 1989 when bids received were significantly over engineering estimates. At that time a task force was formed within the Bureau of Environmental Services to study methods of lowering construction costs. The results of this study were implemented in 1989.⁹

Non-conventional approaches were reviewed to determine if they would assist in cost reduction. The subcommittee considered potential cost savings from reducing the number of gravity services available, doing work with City crews, and by awarding longer term contracts, and rejected these ideas as being ineffective or even counter-productive.

In conclusion, the Construction Cost Subcommittee determined that 1) costs are generally in line with regional construction costs and with at least one comparable project; 2) the project is using the best available design and construction methods, and 3) there is little or no prospect for major relief on construction costs from changes in specifications, procedures or methods.

⁸ City of Portland; Bureau of Environmental Services; Mid-County Group; **Mandatory L.I.D.'s**; September 1991.

⁹ City of Portland; Bureau of Environmental Services; Kliewer, Dave; Memo, re: **Mid-County Sewer Cost Alternatives - Summary Recommendations**; October 1989; City of Portland; Bureau of Environmental Services; Klingler, Lee and Sunnarbord, Ron; Memo, re: **Escalating Bids and Contract Issues on the Mid-County Sewer Project**; October 1989.

RECOMMENDATIONS

After a review of its findings the Task Force concluded that the project is unaffordable to a majority of the residents, has many inequities, and that costs are uncertain and very high relative to earlier sewer costs in the city. We consider protection of the ground water resource to be a regional issue requiring regional solutions. We believe a fair share of the costs need to be borne by those outside the project area.

The Task Force makes the following recommendations:

1. A cap of \$3,000 for all Mid-County single-family residential users should be implemented immediately. The Task Force looked at a range of caps from \$2,500 to \$4,000. At a \$3,000 cap with a \$965 connection fee and typical private plumbing costs of \$1,500, less the State Income Tax Credit of \$800, the total cost per resident today would be approximately \$4,665. Financing this sum over fifteen years at 7.8% would result in a monthly payment of \$44 for area residents. Using a gross median income figure in the project area of \$30,000, annual costs would be approximately 1.75% of median gross income, excluding monthly BES service charges. A cap of \$3,000 will make the project affordable for a majority of the users, reduce cost uncertainty, and also more closely approximate costs to other users in the city. Several members thought \$3,000 may be too high when added to service charges. Another member thought it should be higher to provide more relief to lower income properties.
2. We recommend that financial assistance be arranged for those who cannot afford the costs stated above. Such additional financial assistance beyond the cap should be means-tested, based on ability to pay. Such additional assistance might include broadening the safety net, expanding the zero interest loan program to a broader range of eligible participants, and providing low-interest loans for private plumbing. Also the HCD (Housing and Community Development) program should be expanded to include private plumbing cost grants for low income residents. We also recommend exploring the possibility of limiting safety net liens to original principal only, to prevent erosion of equity through ever-increasing interest changes.
3. We recommend the current LID (Local Improvement District) program be changed to a Capital Improvement Project (CIP) to provide greater flexibility and that assessments be charged based on Equivalent Dwelling Units (EDU). The Forester-

Conder report¹⁰ indicates that conversion to an EDU throughout the project area could lower costs to single family residential users by approximately 30%. At present only the first 100 feet of lot depth is assessed. Thus the percentage of the typical single-family lot which is currently being assessed is much higher than the percentage of assessment for larger and deeper multi-family and commercial properties. The impact on public service uses (such as schools, nursing homes, non-profits, etc.) must also be carefully evaluated. A method would also need to be created to assess EDU's to vacant land based on front footage, zoning, square footage or anticipated future use.¹¹

4. On many occasions the Task Force members have expressed concern over costs, the failure to apply for major federal assistance, and non-construction (administrative) costs. Also, concerns have been expressed about "in lieu" charges being assessed and transferred to the sewer general fund instead of offsetting project costs. Another expressed concern was whether this project was designed to generate inappropriate "profits" to BES or general city coffers. On several occasions we discussed recommending a project performance review by an independent auditor. It was concluded each time by a narrow majority that a performance review (audit) should be recommended.
5. We recommend that property owners be encouraged to pre-pay their sewer assessments, and also that the Council consider accelerating the project, to reduce future time-related cost increases.
6. We recommend that all caps and other financial relief be applied retroactively to all eligible participants within the project area.
7. We recommend that an increase in the State Income Tax Credit be requested to a level that approximates the estimated value of the typical cesspool system being abandoned. Also, that a HARRP (Homeowner And Renters Relief Program) type program be established for lower income residents that cannot recover part of the costs through tax reduction.

¹⁰ Forester, J. Richard, Consultant to the Mid County Sewer Project Cost Alternatives Task Force; "Revised Numerical and Narrative Evaluation of Mid County Sewer Financing Alternatives"; October 1991.

¹¹ See also: City of Portland; Mid County Sewer Project Cost Alternatives Task Force; Nelsen, David; "Minority Report: Five Point Financing Plan for the Mid County Sewer Project"; November 1991.

8. Combined Sewer Overflow (CSO) casts a dark shadow over the Mid-County Sewer Project. One of our retained consultants concluded that adding the Mid-County members to the system should lower CSO costs to other BES customers far more than the monthly increase to those other customers for funding Mid-County project relief. Several members of the Task Force question whether it is equitable for Mid-County residents to be charged under the current policies for the CSO project. Certainly both projects are central to regional water quality issues, and should be addressed on a regional basis. Policies need to be enacted that are fair to all users in the system. To this end we agree with Commissioner Blumenauer that an equity committee needs to be established to evaluate these issues and determine who should equitably pay for the CSO problem. Several Task Force members have expressed a willingness to participate in this endeavor. As a general principle, however, we believe that the costs for both projects should be shared on a region-wide basis. If not, then Mid-County residents should be exempted from all current and future CSO costs.
9. The Task Force also suggests that these recommendations be reviewed for their applicability to other areas of the city.
10. The City and the Department of Environmental Quality should seek, and our congressional delegation should seek to obtain, additional federal funding for this project. If funding is not sought, a full explanation to the public must be made.

APPENDIX A

MID-COUNTY SEWER PROJECT COST ALTERNATIVES TASK FORCE

RESOLUTION AND SCOPE OF WORK

RESOLUTION NO. 34855

WHEREAS, in April, 1986, the Environmental Quality Commission found that the absence of a uniform sewer system in mid-Multnomah County had resulted in a threat to drinking water and directed the City of Portland to construct sewers to replace existing septic tanks; and

WHEREAS, the City of Portland worked with the Department of Environmental Quality to devise the Mid-Multnomah County Sewer Implementation Plan and began sewer construction in April, 1987; and

WHEREAS, recognizing that the share of the cost of sewer construction could create significant financial hardship for some property owners, the City Council passed resolution 34053 to create a financing options for property owners meeting certain criteria and needing assistance; and

WHEREAS, the Bureau of Environmental Services developed financing options including a sewer safety net, a low interest loan program and State property tax credit for affected property owners in mid-Multnomah County and has administered these programs for the benefit of all those qualifying; and

WHEREAS, the mid-Multnomah County Sewer Project is now in its fifth year of a projected 17 year construction schedule; and

WHEREAS, the Portland Organizing Project, on behalf of the Englewood Sewer District, has expressed concern that the current method of financing the project is overly burdensome to property owners and should be changed to provide greater relief to affected parties; and

WHEREAS, it is appropriate that the underlying policies and principles of the financing program be re-examined on a regular basis to ensure that financing practices are fair, effective and meet the objectives of the program as well as the needs of the citizens; and

WHEREAS, the City Council wishes to review current project costs and evaluate other financing options to ensure that the assessments charged to property owners are reasonable and fair and explore modification to assessment practices if appropriate.

NOW, THEREFORE, BE IT RESOLVED, that the City Council establish the Mid County Sewer Project Cost Alternative Task Force, as outlined in Exhibit A. The purpose of the Task Force is to:

1. Review concerns raised by affected property owners regarding current costs and cost increases over past five years.
2. Re-examine the assessment policies and project financing principles established by the Council in 1986.
3. Develop recommendations for alternative financing options to increase the affordability of sewer construction to property owners in the Mid County Sewer Project Area.

BE IT FURTHER RESOLVED that the Task Force shall report its findings and recommendations to the City Council by November 1, 1991.

Adopted by Council, MAY 22 1991

Comm. Blumenauer
Julia Pomeroy
May 16, 1991

BARBARA CLARK
Auditor of the City of Portland
By *Britta Olson*
Deputy

Appendix A

Mid County Sewer Project Cost Alternative Task Force

Scope of Work

Background

In 1986, when Portland was ordered by the Oregon Environmental Quality Commission to install sewers in the Mid County Area, the City Council passed resolution 34053 that established how the project would be financed. Basic to this resolution was the premise that sewer costs for new customers to Portland's sewer system would not be subsidized by the existing customers in the system. This premise was founded on three conditions:

1. No outside funding had been secured and it appeared that little would be available because of the withdrawal of federal funds.
2. Sewer services are a cost of property ownership and ultimately reflect in the value of the property served, and
3. Subsidizing the affected area property owners for sewer costs would be inequitable to the properties which have previously been assessed.

Recognizing that the affordability of new sewers was a key factor in carrying out the Project responsibly, the City Council further directed the staff to develop a sewer safety net to allow low-income property owners with the option of deferring sewer costs until the sale of their property and to expand the payment options under the City's low interest loan program to allow sewer costs to be spread over a longer period of time.

Current Status

The project is now in the fifth year of its seventeen year life. A Sewer Safety Net, funded by the State Department of Environmental Quality, has been available since 1987 offering deferred payment loans and connection deferrals to eligible property owners. The loan program has been expanded to allow sewer costs to be paid monthly at variable lengths of terms. At the current rate of 7.8% interest for a twenty year length of term, the approximate monthly cost is \$8 for every \$1000 borrowed. In addition, the 1987 State legislature enacted a State Income Tax credit for sewer connection expenses, currently \$750 at \$150 per year for five years.

To date, 12,823 property owners have connected to sewers in Mid County, 6,334 of these since 1987.

Current Cost Concerns

Sewers are currently being installed in the Englewood Sewer District, one of the 45 districts in the Mid County Project area. The Portland Organizing Project has expressed concern that the proposed cost for Englewood sewers are too high and have requested their sewer costs be reduced. They have suggested an expansion of the Sewer Safety Net, an increased State Tax Credit, a local property tax credit, a cap on sewer costs, and a subsidy from Bull Run Water users or sewer system users. These proposals would essentially shift the cost of Mid County sewers to a larger base of taxpayers or ratepayer, who share some benefit from the installation of Mid County sewers.

Task Force Purpose

A Cost Alternatives Citizen Task Force is proposed to review current cost concerns, re-examine the Project financing principles established by the City Council in 1986 and develop alternative financing principles and options to increase the affordability to property owners in the Mid County Sewer Project area.

Task Force Membership

Representation on this Citizen Task Force will be broadly based to include representatives of new sewer customers from the Mid County area and existing sewer and water customers. This thirteen member task force will include:

- 1 member of the Portland Budget Advisory Coordinating Committee
- 1 member of the Bureau of Environmental Services Budget Advisory Committee
- 1 member of the Water Bureau Budget Advisory Committee
- 1 member of the Mid County Sewer Project Citizens Advisory Board
- 1 representative of Human Solutions, the Mid County Social Service Provider
- 3 members representing POP's, ECCO, and East Portland District Coalition
- 5 members each appointed by members of the City Council

Scope of Work

The task force will perform the following analysis.

1. Examine and evaluate the principles that guided the Mid County Sewer Project financing program as adopted by the City Council in 1986.
2. Examine the current menu of financing options for Mid County customers and evaluate for adequacy and "affordability".
3. If appropriate, develop and recommend modifications to the principles and an expansion of the financing menu consistent with the modified principles.
4. Consider whether there are other City policies or objectives that would be served by developing new financing options for the project.
5. Conduct an investigation of the following financing options:
 - * Expansion of the Sewer Safety Net with funds from either the State or local sources, including a surcharge on Water and Sewer rates.
 - * A local property tax credit for sewer costs.
 - * An expanded State Income Tax Credit for sewer costs.
 - * Urban Renewal Designation for all or part of the Mid County Project area, including a homestead exemption provision.
 - * Assistance from Federal loans or grants.
 - * The use of property value increase as a result of sewer installation as a source of revenue to offset costs.
 - * A cap on sewer costs to property owners; with costs in excess of this cap, paid from other sources such as a surcharge on sewer and water rates.
 - * Reduction of System Development Connection Charges for Mid County customers with subsidy provided by non-Mid County sewer customers.
 - * Revision of construction policies such as the project length and district sizing.
 - * Other ideas generated by the task force.

6. Consider the impact of proposed options to all Mid County Project customers, including those who have connected and paid under existing financing program.
7. Report back to the City Council with a report by November 1, 1991.

Task Force Staff and Technical Advisory Committee

The Task Force will be staffed by Bureau of Environmental Services. A technical advisory committee will be established to assist the task force and include representatives from the Auditor's Office, the Water Bureau, the Department of Environmental Quality, the Portland Development Commission, the Bureau of Community Development and the Portland Housing Authority.

APPENDIX B

MID-COUNTY SEWER PROJECT COST ALTERNATIVE TASK FORCE

BIOGRAPHIES

TASK FORCE BIOGRAPHIES

DEY, W. ROSS

Employment and volunteer activities pertaining to Task Force:

- 1990 - Present: Portland Future Focus
- 1989 - Present: Executive Director of HOST (Homeownership

One Step at a Time)

- 1975 - Present: Director of Oregon State Home Builders
- 1987 - Past President of Home Builders Metro Portland

Sewer Project Status: does not own property in project area.

Appointed to the Task Force through Commissioner Blumenauer's Office.

KIELY, G. KEVIN

Employment and volunteer activities pertaining to Task Force:

- 1987 - Present: Officer - Oregon State Bar Construction Law Section
Executive Committee
- 1988 - 1991: Pastoral Council, St. Charles Roman Catholic Church

Sewer Project Status: does not own property in project area.

Appointed to the Task Force through Commissioner Lindberg's Office.

JANE, ROSEMARY

Employment and volunteer activities pertaining to Task Force:

- 1988 - Present: Chair, City of Portland Budget Advisory Committee
- 1988 - Present: Office of Cable Communications and Franchise Management
Advisory Committee

Sewer Project Status: does not own property in the project area.

Appointed to the Task Force through Portland Budget Advisory Committee.

MORGAN, DOUGLAS F.

Employment and volunteer activities pertaining to Task Force:

- 1987 - Present: Member of Portland Water Bureau Citizens Advisory Board
- 1990 - Present: Member of Portland Water Bureau Resources Advisory
Committee

Sewer Project Status: does not own property in the project area.

Appointed to the Task Force through Portland Water Bureau Budget Advisory Committee.

NELSEN, DAVID L.

Employment and volunteer activities pertaining to Task Force:

- 1985 - Present: Far West Bank - VP & Manager of Income Property Lending
- Citizen Advisory Committee - Banfield, I-205, Wood Village.
- Member Wilkes Neighborhood Group - Approx 15 yrs.

Sewer Project Status: pre-existing voluntary county sewer.

Appointed to the Task Force through East Portland District Coalition.

NIELSEN, CARL K.

Employment and volunteer activities pertaining to Task Force:

- 1965 - Present: Northwest Natural Gas - Engineering & Construction
- 1962 - 1965: Montana-Dakota Utilities Company - Engineering
- 1962 - 1960: Lincoln County Schools, Oregon - Teaching

Sewer Project Status: does not own property in the project area.

Appointed to the Task Force through Mayor Clark's Office.

PENNINGTON, RON L.

Employment and volunteer activities pertaining to Task Force:

- 1989 - 1991: Mid County Sewer Project Citizens Advisory Board
- 1990 - Present: Citizens Involvement Committee (County) - Treasurer
- 1987 - Present: Centennial School Board - Budget
- 1991 - Present: Gresham Chamber Public Affairs Committee - County Budget Review
- 1980 - 1983: Machinist Local #63 - Treasurer

Sewer Project Status: TD3 Trunkline - 1990.

Appointed to the Task Force through Citizens Sewer Advisory Board of the Mid-County Sewer Project.

PHEGLEY, DANIEL L.

Employment and volunteer activities pertaining to Task Force:

- 1981 - Present: Insurance agent - Budgeting for Local Business & Households
- 1987 - 1988: Board Member - Eastside Up - Parkrose Revitalization
- 1986 - 1990: United Citizens - Chairman/Board Member
- 1982 - 1990: Rockwood, Parkrose & Hazelwood Community Groups

Sewer Project Status: Lincoln Park LID 1997+.

Appointed to the Task Force through East County Coordinating Committee.

PIETKA, DAVID E.

Employment and volunteer activities pertaining to Task Force:

- 1985 - 1989: Portland Housing Advisory Committee
- 1987 - 1989: Central City Plan Steering Committee
- 1978 - Present: Palmer, Groth & Pietka - Valuation Issues
- 1985: Palmer, Groth & Pietka - Study for CH2M Hill for Mid County Sewer Project value impacts.

Sewer Project Status: does not own property in project area.

Appointed to the Task Force through Portland Organizing Project.

PIPER, CAROLYN A.

Employment and volunteer activities pertaining to Task Force:

- 1990 - Present: Human Solutions - Management
- 1989 - 1990: Prudential Homefolk Realtors - Real Estate Sales
- 1989 - Present: ASERT Neighborhood Association - President

Sewer Project Status: Pre-existing sewer in the Gresham project area.

Appointed to the Task Force through Human Solutions.

STEWART, ANDRE F.

Employment and volunteer activities pertaining to Task Force:

- Current: Center for Community Mental Health - Fiscal and Administrative Manager
- 1991: Portland Organizing Project - Volunteer

Sewer Project Status: Woodmere LID - Post 1996.

Appointed to the Task Force through Commissioner Bogle's Office.

WASHINGTON, ED J.

Employment and volunteer activities pertaining to Task Force:

- 1986 - Present: Member Executive Board Concordia Neighborhood Association
- 1987 - 1988: Member Parks Bureau Task Force to study safety in Portland Parks
- 1988 - Present: Member Mid County Sewer Advisory Board
- 1988 - Present: Member of Citizen's Advisory Committee on Tri-Met Budget

Sewer Project Status: Pre-sewered, Englewood Neighborhood.

Appointed to the Task Force through Commissioner Kafoury's Office.

WEAVER, RONALD O.

Employment and volunteer activities pertaining to Task Force:

- Bureau of Environmental Services Budget Advisory Committee
- Mid County Sewer Project Citizens Advisory Board
- Parkrose Community Group

Sewer Project Status: Cliffgate 1997+.

Appointed to the Task Force through Bureau of Environmental Services Budget Advisory Committee.

APPENDIX C

MID-COUNTY SEWER PROJECT COST ALTERNATIVES TASK FORCE

LIST OF CITIZENS PROVIDING WRITTEN AND ORAL TESTIMONY

APPENDIX C

This is a summary of people who spoke, wrote, and signed petitions to the Task Force and Commissioners concerning the cost of sewer construction and hook up.

Individuals who spoke at the September 12, 1991 Public Hearing:

Dorothy Smith, Dan Phegley, Mack Fisher, Marthella Bailey, Satish Palshikar, Larry White, Karen Jenkins, Tom Cropper, Pat Barnes, Todd Berndt, Carl Schley, Ralph Edmunds, Joseph M. Ardito, R.A. Olson, Debra Phegley, Herb Broun, Dorothy MacLeod, Pat Brown, Walt A. Walter, Everett Coffman, Robert L. Jones, Mike Roelle, Walt Meyer, Dale Sherbourne, Sally Klaver, Richard D. Roberts.

Organizations/Representatives who spoke at the September 12, 1991 Public Hearing:

Portland Organizing Project (submitted a written copy of testimony), Southeast Uplift/Linda Bauer, Associated General Contractors/Jack Nelson.

Individuals who spoke at the September 18, 1991 Public Hearing:

Bob Luce, Margo Slusher, Dave Long, Charles Goetz, Denis Reilly, Frank Gearhart, Margeurite V. Hill, Jerry Fitzsimmons, William D. Shorrs, Barb Fritz, Gloria Starling, Jeanne Orcutt, Don Burke.

Organizations/Representatives who spoke at the September 18, 1991 Public Hearing:

ECCCO/Alice Blatt.

Individuals who spoke at the November 12, 1991 Public Hearing:

Commissioner Earl Blumenauer, Representative Vera Katz, Herb Brown, Bob Luce, Dorothy Smith, Franklin Jenkins, Tom Dennehy, Peter Smith, Mack Fisher, Tom Cropper, Linda Riley, Charles Goetz, Nancy Phelps, Joan Gillander, Jane Baker, Frank H. Johnston, Marthella Bailey, Fr. Jack Mosbrucker, George Starr, Robert Hudson, Senator Ron Cease, John Olsen, Richard Sherman, Joe Schmidt, Steven C. Puls, Barbara Brooks, Walt Meyer, Geri Ward, Irving Ott, Jean Hood, Commissioner Sharron Kelley, Dale Sherbourne, Marji Marlene M. Wolfer, Jacqueline Frisbee, Constance

Lowery, William Shores, Jim Bisenius, Michael R. Mignano, Pat Brown, Dorraine Modisett.

Organizations/Representatives who spoke at the November 12, 1991 Public Hearing:

Portland Organizing Project/Karen Jenkins, East County Coordinating Committee/Bob Luce, Southeast Uplift/Arlene Palshikar, East Portland District Coalition/Dennis Richey, United Citizens/Jeanne Orcutt and Frances Hyson.

Written Correspondence Received By the Task Force from:

Tom Cropper, Linda Bauer for Southeast Uplift, Jack Nelson of Associated General Contractors, Jane Baker, The Real Estate Marketplace/Linda Hall, Kathy Grove, Mark E. Gardner, Dorothy M. Smith, Franklin Jenkins, Bob Woodburn, Margeurite V. Hill, Joy Aitkenhead, Dorothy C. MacLeod, Patty L. Barner, Euene and Bonnie Gregg, Denis & Marguerite Reilly, Leslie D. Martin, Al Clark, M. L. Flint, Themla Upham, H. R. Woodburn, Anton Samson, R.S. Sherman, Trudy & Robert Jones, Lorna M. Lewis, George Heaton, Bob Willoughby, Olema Horton-Garcia, John Merrill, William Bown, Jack Odell, Marvis Holt, Karen Jenkins/Portland Organizing Project, Bob Luce/ECCCO, Dennis Richey/EPDC, Commissioner Earl Blumenauer, Representative Vera Katz, Bob Luce, Dorothy M. Smith, Peter Smith, Linda Riley, George Starr, Joe P. Schmidt, Steven C. Puls, Geri Ward, Jean Hood, Commissioner Sharron Kelley, Dale Sherbourne, Marji Marlene M. Wolfer, Jim Bisenius, Francis M. Kosydar, Donald & Sami Scriptor, Lawrence V. Parker, Chirie C. Pieharshi, Bruce Nelson, H.R. Woodburn, Charles M. Farrier, Rosalie E. Vogel, Dorothy C. MacLeod, Roland Kwee, Tom Dennehy, Harold and Patricia Goodling, Margaret F. Wolff.

Petitions to Elected Officials Concerning Sewer Costs:

The following petition was to Commissioner Blumenauer and Other Elected Officials and was signed by 35 citizens.

"I am a resident of the Mid-County Sewer Project area. I'm concerned about skyrocketing sewer costs. We are being asked to bear this burden alone, while downtown sewers are being paid for by the entire city. We need and deserve help from the rest of the city as well so that people do not lose their home, or lose the equity in their home through the so-called 'safety net'. I urge you to adopt policies such as a cap on sewer assessment and assistance from the entire city that will help to control these unreasonably high costs."

The following petition was from Trudy Jones to Commissioner Blumenauer. It was signed by 275 citizens at 205 addresses.

"POP & Portland Organizing Project are pressuring City of Portland Commissioners to place a levy or sur-charge on the sewer bills or homes of people on sewers to pay for the unsewered areas of Portland. There are 56,000 unsewered homes in East County.

"For a long time it has been obvious that sewers would be needed in Mid-County. For all that time inflation has been the well known norm of our nation. Various unsewered people have delayed by every means possible while costs continued to rise. Elections for sewers at \$1,700 to \$2,200 with the Federal Government paying half were voted down. When sewers were mandated they still protested. Now they are raising a great lamentation about those rising costs; and they have organized to publicize their self-imposed plight.

"People will not lose their homes because of sewers. Sewers can be paid for in cash, use Bancroft bonding at a very low interest rate, or there is a State safety net for low income & needy folks, or if 65 or older they can defer payment until their estate is sold.

"It behooves the rest of us to let the Commissioners of the City of Gresham, City of Portland, and County politicians know that we have paid for our own sewers and that we do not want to pay for sewers for procrastinators."

Their names were added to the Task Force mailing list, but were not checked for duplications or accuracy.

APPENDIX D

MID-COUNTY SEWER PROJECT COST ALTERNATIVES TASK FORCE

DOCUMENT LIST

APPENDIX D

COMPENDIUM OF MATERIALS

MID-COUNTY SEWER PROJECT COST ALTERNATIVES TASK FORCE

The attached document list includes all documents prepared by or for the Task Force and all historical reference materials used by the Task Force during its deliberations. The Task Force is interested in guaranteeing that its work be carried forward for any future public involvement efforts surrounding the Mid-County Sewer Project. Therefore, repositories have been established at the following locations for materials generated by and for the Task Force. For other historical materials, contact the agency responsible for preparing the document.

COMMUNITY GROUPS:

- *CENTRAL NEIGHBORS NORTHEAST, MARY PALMER, 823-3156
- *EAST PORTLAND DISTRICT COALITION, CHARLSIE SPRAGUE, 256-0014
- *EAST COUNTY COORDINATING COMMITTEE, BOB LUCE/DOROTHY SMITH, 761-5209
- *PORTLAND ORGANIZING PROJECT, KATHY TURNER/TOM SHRAWE, 282-0087
- *SE UPLIFT, NICK SAUVIE, 232-0010
- *UNITED CITIZENS, JEANNE ORCUTT, 666-1161

CITY OFFICES:

- *MAYOR'S OFFICE, CHRIS TOBKIN, 823-4125
- *COMMISSIONER BLUMENAUER'S OFFICE, JULIA POMEROY, 823-3609
- *CITY AUDITOR'S OFFICE, DAN VIZZINI, 823-4087
- *BUREAU OF ENVIRONMENTAL SERVICES, KAREN KRAMER, 823-2033
- *MID-COUNTY SEWER PROJECT OFFICE, BONNIE MORRIS, 823-4032

CITY ARCHIVIST:

The City Archivist is the sole agency responsible by City Code for maintaining all historical files pertinent to the City's activities. Materials generated by and for the Task Force which are listed in the attached appendix will be forwarded to the City Archivist. In addition copies of all other materials generated during the Task Force effort will be forwarded to this agency of the city. For more information about what the City Archives maintains, please contact Steve Webber at 823-4631.

TASK FORCE DOCUMENT LIST

Documents Prepared for the Task Force Effort

- 1) City of Portland; City Council; Commissioner Blumenauer, Earl; **Resolution 34855, establishing the Mid-County Sewer Project Cost Alternative Task Force, including Scope of Work**; May 1991.
- 2) City of Portland; Mid-County Sewer Project Cost Alternatives Task Force; Equity Subcommittee; **"Mid-County Sewer Project Equity Issues: Draft IV"**; September 1991.
- 3) City of Portland; Mid-County Sewer Project Cost Alternatives Task Force; Customer Uncertainty and Risk Subcommittee; **"Mission Statement and Draft Report on Customer Uncertainty and Risk"**; September 1991.
- 4) City of Portland; Mid-County Sewer Project Cost Alternatives Task Force; Construction Cost Subcommittee; **"Preliminary Subcommittee Report on Construction Costs"**; September 1991.
- 5) City of Portland; Mid-County Sewer Project Cost Alternatives Task Force; Affordability Subcommittee; **"Subcommittee Report on Affordability"**; October 1991.
- 6) City of Portland; Mid-County Sewer Project Cost Alternatives Task Force; Berkley, Carol; Memo, re: **Summary of Task Force Facilitation Results**; October 1991.
- 7) Forester, J. Richard, Consultant to the Mid-County Sewer Project Cost Alternatives Task Force; **"Revised Numerical and Narrative Evaluation of Mid-County Sewer Financing Alternatives"**; October 1991.
- 8) City of Portland; Mid-County Sewer Project Cost Alternatives Task Force; **"Media Clipping File for the Task Force"**; August 1991 to November 1991.
- 9) City of Portland; Mid-County Sewer Project Cost Alternatives Task Force; **"Compendium of Oral and Written Response Regarding the Preliminary Task Force Report"**; November 1991.
- 10) City of Portland; Mid-County Sewer Project Cost Alternatives Task Force; **"Preliminary Report of City Council"**; November 1991.

- 11) City of Portland; Mid-County Sewer Project Cost Alternatives Task Force; Nelsen, David; **"Minority Report: Five Point Financing Plan for the Mid-County Sewer Project"**; November 1991.
- 12) City of Portland; Mid-County Sewer Project Cost Alternatives Task Force; Jane, Rosemary; **"Minority Report: Continuing Citizen Involvement"**; November 1991.
- 13) City of Portland; Mid-County Sewer Project Cost Alternatives Task Force; Phegley, Dan; **"Minority Report: Affordability Issues and Recommendations"**; November 1991.
- 14) City of Portland; Bureau of Environmental Services; Kramer, Karen; **Staff Report on Portland Organizing Project Proposals For Financing for the Mid-County Sewer Project**; March 1991.
- 15) City of Portland; Bureau of Environmental Services; Staff Report; **"Portland Mid-County Sewer Project Affordability Analysis Update"**; April 1991.
- 16) City of Portland; Bureau of Environmental Services; Kramer, Karen; Memo, re: **Transmittal of Information (Mid-County Sewer Project Total Project Costs and Cost Recovery; Mid-County Sewer Project: Distribution of LID Project Costs; Cost Comparison of Cesspools and Sewers)**; September 1991.
- 17) City of Portland, Bureau of Environmental Services; Nolan, Mary; Memo, Re: **Response to Task Force about Willamette Week Article on Construction Costs and Clarification About Drew Barden Report**; December 5, 1991.
- 18) City of Portland; Bureau of Environmental Services; **"Draft Scenarios for Analysis: Mid-County Funding Alternatives"**; December 1991.
- 19) City of Portland; Bureau of Environmental Services; Mid-County Group; **"Impact of Calculating Assessments Based on EDU"**; December 1991.
- 20) City of Portland; City Attorney's Office; Kasting, Peter; Memo, re: **Legal Issues Applicable to Task Force Recommendations**; October 1991.
- 21) City of Portland; City Attorney's Office; Rogers, Jeff and Kasting, Peter; Memo, re: **Impacts of Article XI, Section 11b of the Oregon Constitution on Converting Sewer Construction from LID to CIP Financing**; December 1991.

22) City of Portland; City Attorney's Office; Kasting, Peter; Memo, re: **Legal Issues Raised by Mid-County Sewer Project Funding Scenarios**; December 1991.

23) City of Portland; City Auditor's Office; Assessment Division; Vizzini, Daniel G.; **"Assessment Financing Status Report"**; August 1991.

Reference Documents Used by the Task Force

1) City of Portland; Bureau of Environmental Services; Mid-County Group; **"Straighttalk About Sewers - From Cesspools to Sewers in Mid-County: How to Hook Up"**; Summer/Fall 1987.

2) City of Portland; Bureau of Environmental Services; Mid-County Group; **"Straighttalk About Sewers - Questions and Answers About the Mid-County Sewer Project"**; Summer/Fall 1987.

3) City of Portland; Bureau of Environmental Services; Mid-County Group; **"Straighttalk About Sewers - The Dollars and Cents of Sewers for Residential Property Owners"**; Summer/Fall 1987.

4) City of Portland; Bureau of Environmental Services; Mid-County Group; **"Straighttalk About Sewers - Wastewater Treatment: An Investment in Our Future"**; Summer/Fall 1987.

5) City of Portland; Bureau of Environmental Services; Mid-County Group; **"Straighttalk About Sewers - An Update on the Mid-County Sewer Project"**; Spring 1990.

6) City of Portland; Bureau of Environmental Services; Mid-County Group; **"Straighttalk About Sewers - Five Year Update"**; Fall 1991.

7) City of Portland; Bureau of Environmental Services; Mid-County Group; **Mandatory L.I.D.'s**; September 1991.

7) City of Portland; Bureau of Environmental Services; Kliever, Dave; Memo, re: **Mid-County Sewer Cost Alternatives - Summary Recommendations**; October 1989.

- 8) City of Portland; Bureau of Environmental Services; Klingler, Lee and Sunnarbord, Ron; Memo, re: **Escalating Bids and Contract Issues on the Mid-County Sewer Project**; October 1989.
- 9) City of Portland; Bureau of Environmental Services; Mid-County Group; **"Sewer Contractors as of November 1990"**; November 1990.
- 10) City of Portland; Bureau of Environmental Services; Mid-County Group; **"Safety Net Guidelines"**; Spring 1991.
- 11) City of Portland; Bureau of Environmental Services; Mid-County Group; (flyer) **"New Sewers for You! (Some Important Information on the Mid-County Sewer Project)"**; Fourth Edition, Summer 1991.
- 12) City of Portland; Office of Finance and Administration; Barden, D.S.; Memo, re: **Analysis of Extension of Sewer Service to the Affected Area**"; August 1985.
- 13) East County Sanitary Sewer Consortium; **"Threat to Drinking Water Findings"**; June 1984.
- 14) East County Sanitary Sewer Consortium; CH2M Hill; **Mid-Multnomah County Sewer Implementation Plan, Volume I and II**"; September 1985.
- 15) CH2M Hill; Multnomah County; **"Final Report Sewerage Facilities Financing Plan"**; December 1981.
- 16) Multnomah County, Oregon; **"East County Sewer Report"**; January 1982.
- 17) Multnomah County, Citizen's Advisory Committee; **"Sewers in East Multnomah County Recommendation for Financing (Final Report)"**; August 1983.
- 18) Oregon Department of Environmental Quality; Director; memo, re: **Special Agenda Item, June 29, 1984, Environmental Quality Commission Meeting - Proposal for Environmental Quality Commission to Declare a Threat to Drinking Water in a Specifically Defined Area in Mid-Multnomah County Pursuant to ORS 454.275 et. seq.**; June 1984.

- 19) Century West Engineering Corporation; **"State of Oregon, Department of Environmental Quality, Mid-Multnomah County Sewer Implementation Plan Evaluation Project, Project No. 040031.01.09, Final Response"**; January 1986.
- 20) Oregon Department of Environmental Quality; **"Evaluation of Hearing Record for Proposal to Declare a Threat to Drinking Water in a Specifically Defined Area in Mid-Multnomah County Pursuant to ORS 454.275 et. seq."**; January 30 and February 6, 1986.
- 21) Oregon Environmental Quality Commission; Findings and Order (DOR 725); **"In the Matter Of the Proposal to Declare a Threat to Drinking Water in a Specifically Defined Area in Mid-Multnomah County Pursuant to ORS 454.275 et. seq."**; April 1986
- 22) Oregon Department of Environmental Quality; **Request for Environmental Quality Commission Action; re: Pollution Central Bonds Authorization of Special Assessment Improvement Bond Purchases for Mid-Multnomah County Sewers**; August 1990.
- 23) Oregon Land Use Board of Appeals No. 86-032; **Index of the Record for Mid-Multnomah County Threat to Drinking Water Proceeding Before the Environmental Quality Commission, Volume I, Index pp 1-415**; Fall 1986.
- 24) ORS 454.030; **"Sewage Treatment and Disposal Systems - Public Health and Safety"**
- 25) United States Environmental Protection Agency; **"Environmental Protection Agency Construction Grants (CCG-85)"**; 1985.
- 26) Engineering News Record; **ENR Index vs 7000 Assessment Costs (Used Seattle ENR Index to 1979)**; Graph from 1960 to 1990.

MINORITY REPORT

DAVE NELSEN

**"Outline of Five Recommendations for Solving
the Inequities of the Current Financing"**

MEMO

Date: November 14, 1991

To: Members of the Portland City Council

From: David Nelsen (Member Mid-County Sewer Project Cost Alternative Task Force)

Subject: Minority Report

For the past several months, I have served on the Mid-County Sewer Project Cost Alternative Task Force. I was appointed as a representative of the East Portland District Coalition of Neighborhoods which covers most of the project area. In addition to being on the EPDC board, I have also had over 20 years of real estate analysis and finance experience. I would, at this time, like to offer some thoughts about the task force, my concerns about the future, and possible solutions.

First, the task force faced an overwhelming challenge in a very short period of time. It is fulfilling its charge but not looking deep enough into concrete recommendations and putting actual dollar values to its recommendations. I hope this is the first phase, not the final phase, and that someone other than the Bureau of Environmental Services' staff will pick up the challenge and try to see it through to implementation.

The staff has been an interesting challenge. Some, including Dan Vazzini and Ron Sunnarberg, have in my perception been very helpful. Bonnie Morris was also helpful. Some others have been reluctant to look at change and have given dated, partial, or incomplete information, thus causing frustration for myself and other task force members. There is even one case where a multi-family connection fee was given to the task force on July 23 as \$772; then on October 21, members of the Implementation Committee were told that it had been increased to \$885 on July 1. In another instance, I asked by memo on August 29 what the combined sewer out-flow project would cost to correct. On September 10, I was given an answer (report to Committee dated September 10) that did not relate to the question. A second request was made on September 11. And then on September 24, a response was delivered which was dated September 18. The answer was that, "The downtown sewer separation project currently underway is expected to cost \$1.9 million." I eventually had to revert to the *Oregonian* to get any kind of usable information.

This brings me to one of my biggest concerns of the future—the uncertainty and costs of the CSO project which could be \$500 million to \$1.1 billion and cost all rate payers somewhere between \$18 to \$40 per month over the current single-family rate of approximately \$14 per month. As I understand, most of the city has this problem and DEQ has, I believe, declared it obsolete and a threat to water resources which sounds

very similar to the mid-county directive issued by the EQC in 1986. Now we are asking the mid-county residents to build a first-class, up-to-date, 100-year-life system and then contribute it to the utility who will then assume maintenance. And, along the way, we are going to ask them to pay \$18 to \$40/month to fix the obsolete system that they are going to be joining. Whatever we do now needs to take this into consideration and maybe there are solutions which can help solve both problems.

I propose that a standard residential unit be established that would include most single-family residences. Each single-family home would then be charged say \$4,000 plus paying for their private plumbing. On oversized lots, where the usage is upgraded in the future with say a flag lot, another \$4,000 plus inflation would be charged. On multi-family properties, each 75 to 80 feet of frontage would be charged the single-family residential unit equivalency or \$4,000. At permit or at hook-up, another \$4,000 would be charged for each three or four additional units over the frontage units. On commercial and industrial, they would pay \$4,000 for each 75 to 80 feet of frontage times 100' deep plus say an additional one-tenth, or \$400, for each 7,500 to 8,000 square feet of site. At present, using the square footage 100' deep, single-family residences are providing a subsidy for multi-family and other users. At present, multi-family units pay only 20%-30% of what single-family residences pay.

If we make a change to this type of use-oriented assessment, it would result in a 30 percent plus reduction to single-family users and make the project cost affordable to many more individuals without costing the rest of the city's rate payers any additional costs.¹ It may even raise additional funds and, if done city wide starting immediately, could collect funds in advance of need for the CSO project plus lowering the overall cost to the rate payers.

I have a couple of other comments which I think you need to be aware of as well:

First, according to what I have been able to learn about "in lieu" charges approximately \$10 to \$11 million have been taken from the project area collected from residences on the old county system and put into the general sewer fund. These collections were not used to offset the cost in the mid-county project. I realize this is in accordance with current BES guidelines; however, it is difficult to justify not taking these funds and offsetting other mid-county costs. In fact, these funds may even become available for this CSO problem which does not seem fair.

Second, I find it very difficult to substantiate the \$965 single-family hook-up fee and the either \$885 or \$772 multi-family hook-up charges. They are supposed to represent a buy-in for existing value but with a \$500 million to \$1.1 billion liability facing the sewer system and eventual sewer bills of over \$50 per month facing us, perhaps the existing system has little or no value or perhaps the best solution is to exempt the project area from the increases associated with solving the CSO problem. This alone would go a

¹See Forester-Condor Report to the Task Force dated October 25, 1991.

long way to solving the affordability issue and, in essence, cause us to go right back to staff's argument "the polluter pays."

My recommendation for solving the inequities of the current financing are as follows:

1. Set a maximum price for sewer based on historical costs and benefits taking into consideration that many others benefit from improved ground water quality. This price could adjust annually for inflation and property owners should be allowed to prepay to eliminate uncertainty.
2. Change from the current LID method to a capital improvement district setting the price based on a standard residential unit and adjusting the cost more equitably for multi-family commercial and industrial properties. Considerable concessions would need to be structured for community service uses such as nursing homes, hospitals, and schools.
3. Lobby for a system similar to the HAARP program for individuals that cannot take advantage of the \$800 state tax credit.
4. Use as much as possible of the available \$2.7 million of CDBG funds for moderate income loans for private plumbing and low income and elderly grants to help pay for private plumbing. The mid-county area is part of the city; however, it has not received benefit of this program.
5. Exempt the mid-county project area from paying for the CSO problem. It does not seem reasonable or equitable to ask these citizens and, in most cases voters, to pay for both new sewers to protect the ground water resource and separation of CSO to protect the rivers as a water resource.

I apologize for such a lengthy report; however, because of the time constraints placed on the task force, these issues did not get explained or delved into to my satisfaction. I believe sewers should be a service provided like mail, water, and electricity. It should not be such a burden that 50 to 60 percent or more of the people can't afford it or the people are in jeopardy of losing their homes or must forego college education for their children. I also believe we have a bigger problem ahead with the CSO so let's not try to solve one problem without keeping the other one in mind as well. If we change our method of charging for new sewer service now throughout the city, we can also help pay for separation of the CSO system.

Sincerely,



David Nelsen

DN:anh

MINORITY REPORT

**ROSEMARY JANE,
ANDRE STEWART, DAN PHEGLEY
"Continuing Citizen Involement"**

November 7, 1991 (revised draft)
(Replaces all previous.)

TO: Ross Dey, Chair
Mid-County Sewer Cost Alternatives Task Force

FM: Rosemary Jane, BACC Chair and Task Force member
Andre Stewart,
Dan Phegley, East Portland Distric Coalition

RE: Minority Recommendation: Continuing Citizen Involvement

This memo constitutes notice of intent to submit a minority recommendation to be appended to the full report of the Task Force and it contains the substance of that minority recommendation.

BACKGROUND

The State of Oregon has mandated there be a body of citizens who review the progress and operation of the Mid-County Sewer Project. This group is the Citizens Sewer Adviosry Board (CSAB). CSAB members are appointed by the City Council and serve at Council's pleasure. It was, and remains, Council's intent that this body should be composed of a broad representation of the citizens of Portland as a whole and the Mid-County area in particular.

THE PROBLEM

The Sewer Cost Alternatives Task Force, which included two members of the Citizens Sewer Advisory Board (CSAB) focused on issues of affordability, equity, customer uncertainty and construction cost. While recommendations regarding customer uncertainty and construction cost have been addressed by relatively specific recommendations, issues of affordability and equity have generated more general recommendations requiring further study and long-term follow-up.

Based on the testimony of the citizens who attended the two public hearings held by the Sewer Cost Alternatives Task Force to date, and from conversations with a number of Mid-County residents individually, it appears that the Citizens Sewer Advisory Board (CSAB) is perceived as ineffective in responding to the needs of Mid-County residents and unreceptive to their complaints. While CSAB is the body which should deal with issues of equity and affordability on an ongoing basis, its perception by the public coupled with its current method of operation may make the necessary study and follow-up less effective and less likely.

RECOMMENDATION

This recommendation was developed because we believe that the serious issues of affordability and equity cannot be allowed to "take care of themselves". We believe that a strong, accountable and responsive citizen involvement process will insure that the Sewer Project becomes affordable to residents of the project area and that costs are equitably distributed within and without the project area. Therefore, we urge Council to strengthen and maintain the citizen involvement process by implementing the following recommendations as quickly as is practical:

- The City Council should review the effectiveness and public perception of accessibility, accountability and responsiveness of the Citizens Sewer Advisory Board (CSAB).

- If any of these are found wanting, Council should determine if the CSAB can be improved to meet the mandate it was given (including regaining the public's trust).

- If it is determined that CSAB can be improved, Council should direct its improvement.

- If it is determined that CSAB cannot be improved, it should be dismantled and replaced with a commission (similar to the Cable Regulatory Commission, the Portland Development Commission and others) which will be responsive to Mid-County citizens' needs and to Council's direction. The new body should report directly to Council, be staffed by an agency other than the Sewer Project (such as a Neighborhood District Coalition), and be located at a site other than the Sewer Project (such as a community center or Neighborhood District Coalition Office). Council should direct the new body to report to it at regular intervals, such as quarterly, regarding complaint resolution, progress in improving affordability, and other issues that might arise.

MINORITY REPORT

DAN PHEGLEY

"Affordability Issues and Recommendations"

AFFORDABILITY: ISSUES AND RECOMMENDATIONS

Submitted by Dan Phegley
November 12, 1991

Page 1 of 4

In order to understand the historical basis of the deep concerns the Task Force heard expressed about affordability, equity, and customer uncertainty issues, it is necessary to review the history of how the Mid-County Sewer Project came to be, and what the City expected to realize from the project.

A summary of the history:

- * City of Portland Water Bureau studies agree with State DEQ testimony showing no problem with Mid County ground water. ¹
- * *State law did not require* the City of Portland to construct a sewer project in Mid-County to alleviate the threat to drinking water reported by DEQ and disproved by the City. ²
- * *after* the State law became effective the city passed an ordinance to provide sewers for Mid Mutnomah County. ³
- * Two reports indicate that the total cost of sewer assessments to homeowners should not exceed 2% of gross annual income and recommend 1.5% be used. ⁴
- * Based on information provided by Project staff to the Affordability Subcommittee during its meetings, current Mid-County assessments are averaging 5.28% of gross annual homeowner income.
- * The Federal EPA released its financial affordability guidelines for sewer construction projects in July 1984, listing 1.75% of gross annual homeowner income as *the maximum a homeowner should pay* for sewer construction and installation. ⁵
- * Based on EPA homeowner affordability criteria for grants, homeowner costs of 5.28% are excessive.
- * The Federal EPA also stated that a municipality "must demonstrate financial capability for grant..." ⁶
- * City of Portland study shows all indebtedness incurred to construct sewers in Mid-County would be paid off by 1991, cash flow would turn positive in 1991, and future income would be "extremely robust". By the year 2005, cumulative net cash flow is estimated at \$59.7 million. Quoting from the report: "This project represents an extremely attractive financial proposition as well as economic use of resources." (emphasis added) ⁷
- * City Council reviewed costs and financing of Mid-County Project in August, 1985; costs to homeowners were known then, including projections of income to city. ⁸

CONCLUSION

Three studies (2 local and the EPA) have recommended that 1.5% to 1.75% of gross annual income as an affordable amount for homeowners to pay for all costs of sewers. ^{4,5} Currently, however, sewer costs are averaging 5.28% of gross annual income for Mid-County homeowners. ⁹ Based on the Federal EPA guidelines for affordability and the two local studies, sewer costs in Mid-Multnomah County have clearly exceeded affordability guidelines, rendering the project **unaffordable** to the area.

DISCUSSION

Current financing mechanisms pass costs on directly, and fully, to Mid-County homeowners. A change in financing mechanisms (from the Local Improvement District process to Capital Improvement Project process) is being recommended elsewhere in this report. This report will discuss changes in what should be done without necessarily listing specifics of how it should be done, which is more properly the pervue of the section titled "Implementation Strategies". It should be noted however that some of the recommendations in the report by J. Richard Forester dated October 25, 1991 bring costs approximately in line with the three affordability studies mentioned in the above conclusion.

The information cited previously stated that the City of Portland will realize a positive cash flow from this project, beginning in 1991, and that the project as presently financed is unaffordable to the affected area. ^{7,10} Based on these two facts, the question arises, should the City use the positive cash flow realized from the project for direct relief of high assessments in the affected area?

Since the City expects to achieve a positive cash flow (meaning start-up debt is repaid with interest and more money is coming in than going out) in 1991, and since the City is enjoined from realizing a "profit" from this project what, then, will the City do with the positive cash flow generated from this project? ^{7,11} Will all this money go to other projects as indicated in the 1985 study by Drew Barden?

Sewer costs are presently three times higher than Federal guidelines suggest they should be, and much higher than what studies of other projects suggest will result in unacceptably high loan delinquency rates. ¹² To come within the Federal Guidelines these costs need to be reduced by 67%.

If the city re-directed the positive cash flow it will realize from the Mid-County Sewer Project back into the project itself, it could provide assessment relief to the area both retroactively and presently. The relief is sorely needed, and this report recommends it. If the relief came from the project itself, the issue of inequity arising from asking homeowners outside the affected area to support the project through user fees would be rendered moot, and the project would be self-supporting, as the City Council originally intended it to be.

AFFORDABILITY: ISSUES AND RECOMMENDATIONS

Submitted by Dan Phegley

November 12, 1991

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Future assessment amounts may not increase as fast as they have the last five years if the project converts from the Local Improvement District (LID) financing method to the Capital Improvement Project (CIP) financing method. If conversion to CIP financing negatively affects the cash flow projection the City is currently using, other sources of relief will be needed.

The problem of paying for sewers may fall more heavily with the state than the task force was lead to believe. The DEQ chose not to do a Financial Capability study for this project as required by the Clean Water Act in order to obtain Federal Grants. These grants can typically pay for 55% of qualifying expenses as shown by the Royal Highlands Project. 6.13

Another idea to consider is that the City was not required to build sewers in the first place. 2 The State did not show a problem with the drinking water, nor did the City Water Bureau. 1.14 The City decided to build sewers after the State legislation empowered it to do so without a vote of the people. So, if no problem was shown and none exists now that is shown to be correctable by sewers it is reasonable to suggest that the project either be slowed down, or stopped, allowing the City to find ways to make the project affordable to the area.

RECOMMENDATIONS

- 1) If conversion to CIP financing, in accordance with recommendations appearing elsewhere in this report, does not negatively affect the positive cash flow predicted for the sewer project, then proceeds from that positive cash flow ought to be re-invested in the project as relief to the area, both retroactively and presently.
- 2) If conversion to CIP financing, in accordance with recommendations appearing elsewhere in this report, does negatively affect the positive cash flow predicted for the sewer project, then other methods of providing relief to the area must be sought. Such relief could be in the form of holding DEQ responsible for Federal funding or distribution of costs over a wider area, such as the sewer rate base of the City, and others, and relief must be retroactive and present.
- 3) If the project continues to be financed by the LID method, then proceeds from that positive cash flow ought to be re-invested in the project as relief to the area, both retroactively and presently.
- 4) In order to provide time to adequately analyze the options and develop sound implementation strategies that will hold up over time, the project construction schedule should be slowed down, or stopped (no new bids let, LIDs in construction now might or might not be completed).
- 5) Independent audits studying at least but not limited to construction costs, billing methods and cash flow should be instituted immediately. Such audit should be totally independent of the City of Portland and the State DEQ.

AFFORDABILITY: ISSUES AND RECOMMENDATIONS

Submitted by Dan Phegley

November 12, 1991

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Citations:

- 1 "The Workings of The Water Works", November, 1986, page 16
transcript of EQC hearing on 10/18/85 pages 59-61
- 2 ORS 454.280 "treatment works may be constructed by a municipality..."; and
ORS 454.285 "The governing body may adopt by resolution or ordinance a
proposal to construct sewage treatment works..."; both laws dated 1983.
- 3 City Resolution Passed June 21, 1984
- 4 CH2MHill: "Final Report Sewerage Facilities Financing Plan", December,
1981 page 4-30 and East County Sewer Report", Multnomah County, January,
1982, pages 17 & 18.
- 5 EPA Construction Grants, 1985, page 2 Shows 1.75% maximum affordable.
- 6 EPA Construction Grants, 1985, page 57, section 7.3
- 7 Study done by City Economist Drew Barden, August 1985, graph of findings
attached. From report "This project represents an extremely attractive
financial proposition as well as economic use of resources." (Emphasis
added). "Cash flow turns positive during fiscal 1991." "The cumulative
net cash flow at year 20 totals a projected \$59.7 million:..."
- 8 Video tape of Council presentation, discussion, decision.
- 9 Figures provided by Mid-County Sewer Project Office, October, 1991
- 10 The Affordability Subcommittee unanimously reached the conclusion that the
project is unaffordable as the result of information provided to it by
project staff, census data received from Metro, and the other reports
cited here.
- 11 "Recognizing that public agencies don't make a profit."
John Lang in transcript of EQC hearing on 10-18-85 page 21.
- 12 Report prepared by Tom Dennehy, dated march, 1986, based on figures
supplied by City of Portland Auditor's Office.
- 13 Funding for Royal Highlands as follows 55% DEQ administered EPA funds,
35.5% City of Portland Bureau of Environmental Services, 9.5% homeowner
assessments vs 100% assessments for Mid-County.
- 14 "There's no problem now,...." "There is no health hazard."
transcript of EQC hearing on 10/18/85 page 75.

1 I'd like to go back to the troubling problem of nitrates
2 and the criteria that we were not able to demonstrate
3 was met. According to your handout, DEQ began testing
4 the ground water in mid-County in 1971. According to
5 the data that we were shown last year, there has not
6 been any evidence of a clear trend in increasing level
7 of nitrates. Is that correct?

8 MR. SAWYER: The Department has been certainly
9 troubled by, you know, the quantity or the amount of
10 data that we have and the -- I guess the conditions
11 surrounding the gathering of that data. And, yes, we
12 started looking at this growing out of the study really,
13 looking at what factors were feeding the Columbia slough,
14 springs that had high nutrient levels in them, looking
15 at the general lay of the land and the projected
16 ground-water flows, then what was feeding that into the
17 ground water. And that took us back upstream or
18 upgradient to look at existing wells.

19 The data that we have collected has been
20 spotty, you know. Sitting here today you wish you had
21 the money and had laid out a program and actually gone
22 out and drilled some wells to sample so you'd know
23 exactly what level in the aquifer you're sampling and
24 what water it is you're getting versus the using of some
25 of the existing wells that we're not sure just exactly

1 now deep in the aquifer it's pulling from and what it is
2 that you're measuring and whether you're comparing the
3 same things from one year to the next.

4 The data -- And we summarize, you know, some
5 of the typical data in the report that went to you in
6 December. And in looking at that data, it does vary.
7 We can speculate on reasons for the variability and you
8 can look at certain wells and it appears to increase
9 over time. When you take that data, though, and put it
10 in a statistical analysis program, there isn't enough
11 data over a long enough period of time to statistically
12 say there is a trend in any direction. And that's
13 simply the fact that we have to deal with.

14 THE CHAIRMAN: I think that was Dr. Shade's
15 testimony, as I understand it. He was not saying that
16 there wasn't a trend, he was saying that there's not
17 enough data to statistically document a trend. And I
18 think in my mind there's a difference. That's not
19 saying there is not a trend. He's just saying, "I'm
20 sorry, as a scientist I cannot statistically verify
21 using scientific methods that there is a trend."

22 COMMISSIONER BUIST: Let me try and clarify
23 that further. I agree with you that the data are spotty
24 and that is lamentable, but that is what we have to deal
25 with. What you cannot demonstrate statistically because

1 there is so much variability in the data points, you
2 cannot demonstrate a significant trend. In other words,
3 if your data are all over the place, it's very difficult
4 to be able to show a statistical significance. And I
5 think that that's what you're saying. But my next
6 question would be: You really don't know where these
7 nitrate -- what the contribution to the nitrate problem
8 is from human excreta and waters from other sources and --

9 THE CHAIRMAN: You mean like birds?

10 COMMISSIONER BUIST: Like birds, as we heard
11 yesterday. And when you're talking about a specific
12 well or a place that the water has been sampled, we have
13 been provided with inadequate data to know that the
14 trend in that well has come from human use as opposed
15 from fertilizer use or whatever.

16 MR. SAWYER: It is -- you know, it is true
17 that we don't know precisely what sources, how much
18 comes from which component. Again, the information that
19 we could come up with and that was in the record, I
20 don't know whether I can find it, is the best cut of
21 information that we could get in terms of studies that
22 had been done or typical analysis in looking at nitrogen
23 loadings to the ground and nitrogen from all sources,
24 because, you know, it converts to nitrate as it moves
25 through the soil.

454.255 Plans and cost estimates; examination by electors. Before calling any election under ORS 454.235, the governing body of the municipality shall cause to be prepared plans, specifications and estimates of costs of any proposed disposal or water system, as defined in ORS 448.115, to be voted upon, which may be examined by any elector of the municipality. [1973 c.213 §8; 1981 c.749 §23]

CONSTRUCTION OF SEWAGE TREATMENT WORKS

454.275 Definitions for ORS 454.275 to 454.350. As used in ORS 454.275 to 454.350:

(1) "Commission" means the Environmental Quality Commission.

(2) "Governing body" means a board of commissioners, county court or other managing board of a municipality.

(3) "Municipality" means a city, county, county service district, sanitary district, metropolitan service district or other special district authorized to treat or dispose of sewage in any county with a population exceeding 400,000 according to the latest federal decennial census.

(4) "Subsurface sewage disposal system" has the meaning given that term in ORS 454.605.

(5) "Threat to drinking water" means the existence in any area of any three of the following conditions:

(a) More than 50 percent of the affected area consists of rapidly draining soils;

(b) The ground water underlying the affected area is used or can be used for drinking water;

(c) More than 50 percent of the sewage in the affected area is discharged into cesspools, septic tanks or seepage pits and the sewage contains biological, chemical, physical or radiological agents that can make water unfit for human consumption; or

(d) Analysis of samples of ground water from wells producing water that may be used for human consumption in the affected area contains levels of one or more biological, chemical, physical or radiological contaminants which, if allowed to increase at historical rates, would produce a risk to human health as determined by the local health officer. Such contaminant levels must be in excess of 50 percent of the maximum allowable limits set in accordance with the Federal Safe Drinking Water Act.

(6) "Treatment works" has the meaning given that term in ORS 454.010. [1981 c.358 §1; 1983 c.235 §7]

454.280 Construction of treatment works by municipality; financing. Notwithstanding the provisions of ORS chapters 450, 451 and 454, or any city or county charter, treatment works may be constructed by a municipality and financed by the sale of general obligation bonds, revenue bonds or assessments against the benefited property without a vote in the affected area or municipality or without being subject to a remonstrance procedure, when the findings and order are filed in accordance with ORS 454.310. The provisions of ORS 223.205 to 223.295, 223.770 and 287.502 to 287.515 shall apply in so far as practicable to any assessment established as a result of proceedings under ORS 454.275 to 454.350. [1981 c.358 §2]

454.285 Resolution or ordinance. (1) The governing body may adopt by resolution or ordinance a proposal to construct sewage treatment works and to finance the construction by revenue bonds, general obligation bonds or by assessment against the benefited property.

(2) The resolution or ordinance shall:

(a) Describe the boundaries of the affected area which must be located within a single drainage basin as identified in regional treatment works plans; and

(b) Contain findings that there is a threat to drinking water.

(3) The proposal must be approved by a majority vote of the governing body and does not require the approval of the residents or landowners in the affected area or municipality.

(4) The governing body shall forward a certified copy of the resolution or ordinance to the commission. Preliminary plans and specifications for the proposed treatment works shall be submitted to the commission with the resolution or ordinance. [1981 c.358 §3; 1983 c.235 §8]

454.290 Study; preliminary plans. (1) The governing body shall order a study and the preparation of preliminary plans and specifications for the treatment works.

(2) The study shall include:

(a) Engineering plans demonstrating the feasibility of the treatment works and conformance of the plan with regional treatment works plans.

(b) Possible methods for financing the treatment works.

(c) The effect of the treatment works on property in the affected area. [1981 c.358 §4]

454.295 Commission review; hearing; notice. (1) After receiving a certified copy of a resolution or ordinance adopted under ORS

RESOLUTION No.

WHEREAS, several steps have already been taken to begin solving the sewer problem in mid-County as evidenced by Portland's Wholesale Sewerage Services Agreement with the Central County Service District; and

WHEREAS, the City of Portland has defined the boundaries of the affected areas within the Columbia and Johnson Creek basins, and these boundaries are described in the East County Sanitary Sewer Consortium report titled, "Threat to Drinking Water Findings," attached as Exhibit A; and

WHEREAS, more than 50 percent of the affected areas in Portland's service area consist of rapidly draining soils; and

WHEREAS, the groundwater underlying the affected areas is used or can be used for drinking water; and

WHEREAS, more than 50 percent of the sewage in the affected areas is discharged into cesspools, septic tanks or seepage pits and the sewage contains biological, chemical, physical or radiological agents that can make water unfit for human consumption;

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF PORTLAND, that the City of Portland hereby adopts the facilities plan prepared for its sewer service area and submits it to the Environmental Quality Commission in compliance with EOC Administrative Rules and according to the provisions of ORS Chapter 454.

BE IT FURTHER RESOLVED that according to provisions of ORS 454.285, the Council of the City of Portland also adopts findings of a threat to drinking water and adopts the boundaries of the affected areas as presented in the East County Sanitary Sewer Consortium report titled "Threat to Drinking Water Findings" attached as Exhibit A and submits these to the Environmental Quality Commission for the Commission to review and investigate, and to hold a public hearing for the purpose of determining whether a threat to drinking water exists in the affected areas.

Adopted by the Council. JULY 21 1984

Commissioner Mike Lindberg
John M. Lang:al
June 15, 1984

JEWEL LANSING
Auditor of the City of Portland

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Deposited

Significant factors in such an analysis are household incomes, total tax burden, level and duration of proposed costs, household expectations regarding project cost impacts, and other financial obligations of households.

Experience with similar sewer projects in other areas of the United States shows that the ability-to-pay criterion may be applied using the following rules of thumb:

- Annual sewerage costs to households shall not exceed 2 percent of household income.
- Annual costs shall not exceed those of other regional sewerage facilities by a significant amount.

The first rule applies to median household or family incomes and should be interpreted to signify that somewhat lower percentages apply to households with lower than median incomes. Costs, under this criterion, include all possible combinations of user charges, property taxes, and other fees.

Since average household income in the District is estimated to be slightly lower than Multnomah County household income, the recommended rule of thumb percentage for the District should be somewhat lower than 2 percent. This report recommends the selection of 1.5 percent of median Multnomah County household income to test the financial feasibility of the proposed project.

In terms of monthly charges, the analyses contained in this report rely on the rule that all operation and maintenance costs (including administration and replacement costs) must be recovered through user charges, while capital costs may be recovered by means of property tax payments or assessments. Table 30 contains projected household incomes for Multnomah County and the maximum amount that should be spent on sewage service at the 1.5 percent level, assuming a 9 percent annual increase in gross personal household income.

With regard to the second rule of thumb, it appears that, when total sewerage system costs exceed the next highest regional system cost by a factor of two or more, such high costs may become a reason for "grassroots revolts" leading to potential conflicts in the long-term financial administration of the sewerage agency. Such user resistance to relatively high costs might become a factor in the ability to sell general obligation bonds. Table 31 contains a summary of recent single-family annual sewer bills throughout the Portland metropolitan area. These charges are generally comparable with the estimated total operation and maintenance costs (OMAR) for residential users in the Central County

210722

The second consulting report analyzed the cost of constructing sewers throughout the Central County Service District - Inverness service area. The report, formulated by CH2M-Hill, provided data relating to the ability of residents and other property owners of the District to pay for construction of sewers. The report contains estimates for construction of sewers at a cost in excess of \$94 million over a period of ten years.

A combination of cost estimates of the two reports places Inverness Sewage Treatment Plant expansion and provision of services throughout the Central County Service District at a total cost of \$145 to \$150 million. The 1980 assessed valuation of the property in the district is \$1.3 billion. Under the State statutes establishing special county service districts, the District may have a total debt of 13 percent of its assessed valuation. The current debt of the District is \$42,000 in Bancroft bonds as of June 30, 1981. The permitted debt would be approximately \$160 million; the District could legally issue the bonds to carry out the plant expansion and service provision.

There is, however, a vast gulf between what can legally be done, and what is financially possible. The CH2M-Hill report shows that the total cost of providing the sewers and plant capacity would be such a heavy financial burden to the residential and other property owners of the District as to render the project impossible without some outside assistance. The Environmental Protection Agency has developed a standard which depicts that the

average property owner and household should be able to afford approximately 1.5 percent of total family income for the collection and treatment of sewage. Applying this standard, estimates of the CH2M-Hill report indicate that the cost to the average resident of the area would be at least double the established guideline of the EPA standards.

CH2M-Hill projects that if an attempt were made to move forward with the entire program, the costs would be in excess of \$950 per year for the average single family property owner in this area; to recommend such a program at this time would be certain of failure. Alternatives must be sought which:

- 1) Are financially possible;
- 2) Provide additional sewage capacity at the Inverness Plant;
- 3) Permit the extension of sewers and, therefore, the development of the industrial lands;

--The industrial land along the Columbia south shore is vital, as it constitutes the largest area of undeveloped industrial land remaining in Multnomah County, and the land cannot be developed without sewers. If the County wishes to encourage the economic development of that area (as called for in the Comprehensive Plan) providing the new job opportunities that industrial development will create, the County must provide for the collection and treatment of sewage from this area.

- 4) Provide for the connection of existing commercial developments at Gateway, Mall 205, and existing institutions such as the Adventist Hospital;

- o Total Annual Cost Per Household as a Percentage of Median Income - National values previously used are:

1.0% if median income is less than \$10,000
 1.5% if median income is between \$10,000-\$17,000
 1.75% if median income is more than \$17,000

States are encouraged to develop figures better matched to local economic conditions. States may also want to expand this indicator and look at the financial impact of the project on low income users by looking at the cost as a percent of the bottom quartile of income or a certain range of income levels rather than the median income.

- o Capital Cost of Treatment Per 1000 Gallons Per Day of Capacity - When the cost of building a treatment facility exceeds \$3,000 per 1,000 gallons capacity, the technology proposed may be inappropriate.
- o Annual Operation, Maintenance and Replacement (O,M&R) Cost Per Household - When the O,M&R for a project exceeds \$100 per household, the treatment technology selected may be too complex for the community. Unlike capital cost, O,M&R will increase in the future as labor, materials and energy costs increase. If O,M&R costs are high initially, the system is starting at a disadvantage.
- o Size of Project Relative to Existing Facilities - If the increase in household cost of an upgrade or expansion is less than 20% of the existing household cost, the project may not need a more intensive review.
- o Reasonableness of Projected Population Growth - If the projected annual rate of growth is over two times the historical annual rate of growth based on available Federal or local census or other reliable sources, the project may need a more intensive review.

The State should develop a screening system as soon as possible using a combination of the above screening elements or any other the State feels will allow it to target its efforts at reviewing potentially high cost projects. The screen can be applied at appropriate review points (e.g., review of the FONSI, facility plan, or final design). The earlier a project is identified as high cost, the easier it is to correct.

to needs existing on September 30, 1990. You should describe the project to serve existing needs and the project with reserve capacity at the same level of detail. Special emphasis should be placed on the environmental (particularly indirect) and financial impacts of the proposed reserve capacity project.

If reserve capacity is proposed beyond that allowable for grant assistance (Section 5.5.2), it is necessary to calculate a proportioning factor (as a percentage) to be applied to other allowable project costs (e.g., architect/engineer (A/E) services during building, acquisition of eligible land, etc.). The proportioning factor, at the time of grant application, is based on the ratio of the estimated building costs, i.e., construction contractor costs for building the project. Compute the proportioning factor as the ratio of the allowable building costs for the grant allowable capacity divided by the building costs for the proposed larger project. Apply this factor to the other allowable project cost and add the appropriate allowance (Section 13.5) to determine the dollar amount of grant assistance.

When estimating the building costs for both the allowable and reserve capacity projects, be consistent and, where appropriate, use recent cost curves published by EPA (such as MCD-10, MCD-53, FRD-11, FRD-21, FRD-22; see Appendix B for names and availability of these publications).

Although grant assistance may only fund a portion of the project, the review and approval process will be the same as for a fully funded project. If the environmental impacts of any portion of the project are

unacceptable, grant assistance will not be awarded to the project.

When you receive the grant offer, it may include special grant conditions to protect the Federal government from any claim for any of the costs of construction due to reserve capacity. In addition, it should be noted that the user charge system applies to the entire project including the part providing the reserve capacity.

7.3

DEMONSTRATION OF FINANCIAL CAPABILITY

The Clean Water Act (CWA) provides that no grant shall be awarded for the construction of a publicly owned treatment works unless the applicant has demonstrated satisfactorily that it has the legal, institutional, managerial, and financial capability to ensure adequate construction and O&M (including equipment replacement) of the proposed treatment system. Requirements for demonstrating financial and management capability are contained in the construction grant regulations. The Agency's Policy on Financial and Management Capability (Appendix K) explains these requirements.

Guidance has been developed to help States implement the policy (Appendix K). This guidance contains a Reviewer's Checklist, Analysis for Correcting High Cost Projects, and Suggested Screening System Elements.

To assist grant applicants in demonstrating their financial capability, EPA has prepared a "Financial Capability Guidebook" which is available from your State agency or EPA Regional Office. This guidebook also provides a method to evaluate the community's financial condition. The

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MEMORANDUM

From: D. S. Barden
To: File
Date: 22 August 1985
Subject: Analysis Of Extension Of Sewer Service To The Affected Area

The following paragraphs analyze whether or not extension of sewer collection and treatment service to the Affected Area involves a "subsidy." Are City of Portland sewer customers being asked to help pay for the extension of service to the Affected Area? The following paragraphs develop a methodology and criteria for answering this question using information developed for the financial plan for extending sewer service to this area.

METHODOLOGY

Extension of service to the Affected Area will cause the sewer utility to incur additional O&M costs as well as capital costs. Extension of service to the Affected Area will also generate sewer rate revenues, connection charges income, and major facilities equalization charge (MFEC) revenues. The methodology used in this memorandum forecasts sewer user fee revenues from the Affected Area using the inside city sewer rate schedule developed for financial implementation plan. Revenues are then compared with the O&M and capital costs associated with extension of sewer service. Costs, as used here, are meant to include the direct O&M and capital costs associated with the affected area as well as prorated shares of other sewer system or joint costs. Thus, for example, the addition of customers from the Affected Area can be expected to increase customer and billing costs proportionate-

ly. A comparison of the estimated costs associated with provision of service to the affected area with expected revenues allows us to look at the expected net revenues over time. This constitutes an important criterion for judging the "economicness" of extending sewer treatment and collection service to the Affected Area.

Use Of An Investment Perspective-The sewer customers of the City of Portland have made an investment in a sewer collection and sewage treatment system. The result is a modern wastewater treatment and collection system with some of the lowest sewer user charges and fees on the West Coast: in the United States for that matter. Extension of sewer service to the Affected Area must also be viewed from the perspective of a standard investment proposition: will the investment in facilities required to serve Affected Area customers be repaid "with interest?". This question is a complicated one; complicated by the fact that revenues from the affected area and costs incurred in providing service to the affected area will occur over time. The standard tool that economists and engineers use to analyze future cash flows is present worth analysis. Present worth analysis incorporates the "time value of money" or the interest rate to value a stream of net revenues associated with an investment. A simple example of the use of this technique goes as follows. The sewer enterprise fund currently receives an 8.2 percent interest premium on invested funds. Thus, if we were to ask what is \$1.00 one year from now worth, we would answer that its present worth is less than a dollar: the sewer utility can put less than one dollar of idle funds in the bank today, \$0.92, and get a dollar

one year from now, given an 8.2 percent interest rate or "time value of money." Another way of viewing this example, is that an 8.2 percent interest rate makes \$1 one year from now equivalent to \$0.92 today. In summary, a more powerful criterion, for judging the "economicness" of extending sewer service to the Affected Area would be to require that 20 year present worth net revenues be positive given a reasonable assumption about the time value of money. The paragraphs that follow develop a 20-year net revenue cash flow for the Affected Area and compute a 20-year project present worth. The basic perspective is similar to that of an investor making an investment in the private sector. The question to be answered is: does this investment have a positive present worth?

ASSUMPTIONS

In order to generate a 20-year cash flow associated with the provision of service to the Affected Area several assumptions were made as follows:

- * All forecast revenues and costs are in 1985 dollars.
- * Forecast Affected Area sewer rate revenues have been generated using the rate schedule shown in the financial plan. This means that Affected Area customers have been assumed, for purposes of this analysis, subject to inside city sewer rates, MFEC, and trunk connection charges.
- * The time value of money or "discount rate" has been set at 2.5 percent. This represents a real interest rate earned before the effects of inflation. The sewer utility can borrow revenue bond money at around 9 percent in today's bond market. About 4 to 5 percent of this interest rate must be viewed as an inflation component. If we take out 1 or 2 percent for risk we are then left with a real interest rate of about 2 to 3 percent. The sewer utility currently earns 8.2 percent on invested funds. This is equivalent to a real interest rate of about 1.5 percent.

- * Capital outlay for major facilities that will provide service to both Affected Area and current City customers has been apportioned between the two areas using engineering estimates of relative expected design or "ultimate" wastewater flows from the two areas.
- * Operation and maintenance costs have been apportioned between the two areas as follows. Direct O&M costs associated with provision of service to the affected area as detailed in the financial plan have been assigned to Affected Area customers. Other, incremental treatment and collection system costs, have been assigned to the affected area in proportion to Affected Area sewage flows as forecast in the financial plan. Customer and billing costs have been assigned to the affected area on a per customer basis as have engineering, planning, and other administrative costs.
- * For those years in which the cumulative net cash flow from the Affected Area is negative an interest charge using the sewer fund's real rate on invested funds, 1.5 percent, has been calculated.
- * The initial system investment in trunks and pump stations in the affected area has been assumed financed over 20 years using a 2.5 percent interest rate. In addition, annual debt service computed using the above assumptions has been increased by 20 percent reflecting the sewer utility's 1.2 debt service coverage requirement. All other capital facilities costs allocable to the affected area have been "charged" to the affected area in the year the expense occurs.

The assumptions above are extremely conservative. For example, a pro-rata share of Southeast Relieving Interceptor project costs have been assigned to the Affected Area even though this project will be constructed regardless of whether sewer service is extended to the Affected Area. Similarly, the assumption that interest is assessed on any negative cumulative cash balance is not generally required in a present worth analysis since it constitutes a financial consideration not relevant to an economic analysis. It does, however, represent an important financial consideration. To the extent that net cash flow from the Affected Area is negative, it in effect means that City of

Portland sewer customers are making an investment that benefits Affected Area customers. Thus, the analysis requires that when this occurs an interest charge occurs that must be repaid to the investors.

BASIC RESULTS

Cash Flow Analysis-The attached figure summarizes the "net affected area projected cash flow" that results from making the above assumptions. From the figure it can be seen that the cumulative cash flow exhibits a characteristic investment cash flow. The investor makes initial capital outlays and while doing so earns no income. At completion of construction of plant and equipment, the investor sells product that offsets operations and maintenance costs and hopefully allows recovery with interest (or equivalently with profit) of invested capital. The cumulative cash flow turns positive during fiscal 1991: 4 years after the start of construction. The cumulative net cash flow at year 20 totals a projected \$59.7 million: enough to completely finance a projected \$24.7 million expansion of the CDWTP and the \$16.2 million West Central Relieving Interceptor. Thus, on a cash flow basis the City will recover its investment about 4 years from the start of construction. This is an extremely "robust" result: it includes the interest charges on any negative cumulative net cash flow.

Present Worth Analysis-The 20-year net present worth exceeds \$41.4 million using a 2.5 percent time value of money. This means that the internal rate of return is well in excess of 12 percent. The internal rate of return is defined as the time value of money applied to the net cash flow stream (shown in the

attached figure) that yields a zero net present worth estimate. The internal rate of return for this project is quite comparable to rates of return found in the manufacturing and services sectors of the U.S. economy. Thus, using standard business practices for investment analysis, it must be concluded that this project represents an extremely attractive financial proposition as well as an "economic" use of resources.

CONCLUSION

To return to the central question posed above: Are City of Portland sewer customers being asked to help pay for the extension of sewer service to the Affected Area? The answer is, using the methodology and criteria above: No. The cumulative net cash flow from the affected area is positive. The present worth of the net cash flow is positive. Extension of sewer service to the Affected Area is an attractive economic and financial proposition. Given the above answer the only remaining considerations are "qualitative" in nature. It is quite possible, that as a matter of policy and other considerations, a cumulative net positive cash flow by 1991 is unacceptable. The initial investment and early negative cash flow, even when repaid with interest, and offset by "later" but properly discounted net cash receipts could constitute an unacceptable proposition. If this, is the case it needs to be clear that it is not because the proposition is not supported by standard economic and financial criteria.

Note: Comparison is between full average cost revenues and Affected Area incremental O&M and capital costs before contributions for past system capital costs allocable to the Affected Area and current or annual full average O&M costs.

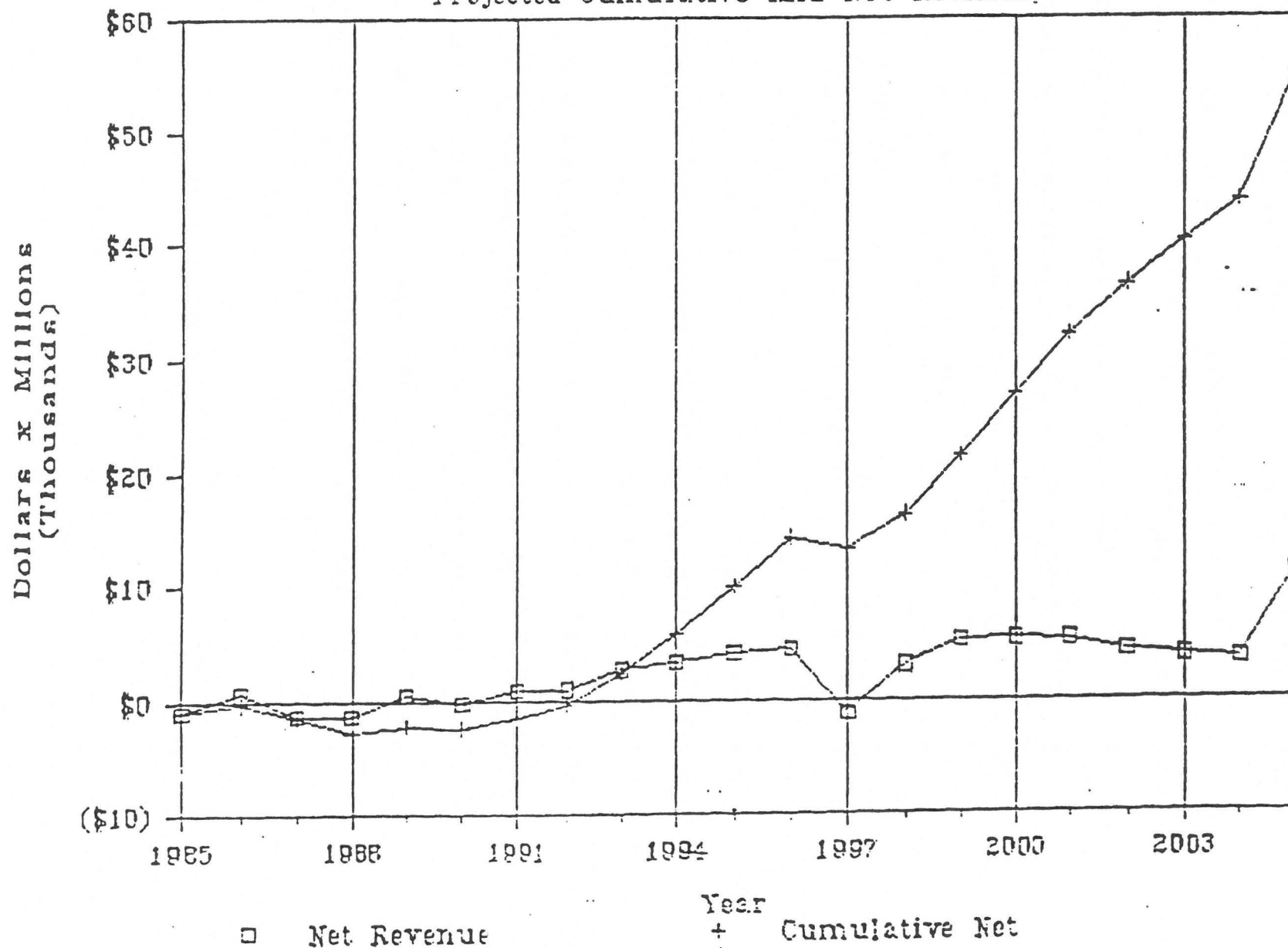
Note: All dollars are 1985

Note: Equivalent annual capital costs have been determined using a real 2.5 percent borrowing rate.

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Notes provided by Bureau of Environmental Services

AFFECTED AREA

Projected Cumulative And Net Revenue.



1 MR. LANG: Yes. I'd ask Mr. Reak^{ick} to come back.

2 THE CHAIRMAN: Why don't you folks just stay
3 close to the microphone? I have a feeling you're going
4 to be up and down.

5 MR. LANG: Recognizing that public agencies
6 don't make a profit. Mr. Reak^{ick} can explain the numbers
7 and what Mr. Dennehy was alluding to.

8 THE CHAIRMAN: Return on investment.

9 MR. REAK: I think it's a misconception. What
10 it is is a net positive cash flow to the City during a
11 20-year period of time. I think in defense of that, you
12 have to understand the City has invested a lot of money,
13 already in providing facilities for that area. I've got
14 a list here that I would be very glad to enter into the
15 record, I don't know if the record is closed, that lists
16 all of the facilities that have been provided by the
17 City of Portland ratepayers net of any federal grant
18 contributions since 1947. And what that net cash flow
19 is really doing is coming back and returning to all the
20 users of the system their investments they've made over
21 that time. So in the sense that it's a profit, what it
22 really is is a repayment to the system for the fair and
23 proportional share of the facilities the City has
24 installed over time.

25 THE CHAIRMAN: How do the people in the

necessary could delay their hookup until the public assessment had been paid for. This, of course, is the same consideration many of us are requesting for mid-county.

Let's return to an examination of the four examples cited by CH2M Hill in their Report. In my October 17th testimony, I listed several reasons why the Lesser Road project did not provide an appropriate comparison (large tracts owned by public bodies and a small number of individuals, much undeveloped land, etc.) I now have more information on the Gertz/Schmeer project confirming impressions I had about that LID. The assessed costs of that project, after allowing for a large federal grant and a large payment by the Port of Portland, came to \$1.9 million. Examination of the individual assessments reveal one assessment of \$220,000 and another of \$178,000. The next largest assessment is about \$70,000. Thus two assessments (out of a total of 776) accounted for more than 20% of the total assessments and were of a different order of magnitude from all the others. If these two are removed from the sample, the average assessment for the remaining 774 properties was \$1966 rather than the \$2475 reported by CH2M. This significantly changes certain percentages shown in Tables F-3 and F-7 of the Report.

Additional information obtained from the Portland Auditor's Office shows an interesting correlation in delinquent accounts for the four projects selected by CH2M. "The City is currently experiencing a delinquency rate on bonded sewer assessments of approximately 12%." (Page 3 of Resolution 34053 adopted by the Portland City Council on 03/13/86.) The table below lists the delinquency rates for the four projects (plus one column from Table F-7 of the Report).

<u>Project Name</u>	<u>Pymts as % of Median Income</u>	<u>Delinquency Rate</u>
Gertz/Schmeer	3.2	24.9
SW 45th Drive	1.8	9.2
Arnold Creek	1.5	9.0
Lesser Road	5.9	19.2

Tables from the Auditor's Office are attached at the end of

1 underlying that program the assumption that hazardous
2 wastes or materials that reach the ground water will
3 penetrate and move on down, that there is no effective
4 barrier from one layer to another. And that is part of
5 the foundation for the insistence on cleanup and
6 reducing that to protect those aquifers.

7 THE CHAIRMAN: So, if I understand you
8 correctly, we really are concerned with the whole thing
9 out there, aren't we? If we're going to be looking at
10 the long-term, long-range future impact, we have to be
11 concerned not only with the shallower aquifers, but also
12 the deeper aquifers and the potential impact on not only
13 wells that might be dug into those aquifers, but the
14 Bull Run system as well. There's no problem now, and I
15 really need to reiterate that because people keep picking
16 up on this word "threat" and thinking that the
17 Consortium is saying that there is a hazard. There is
18 no health hazard. But the purpose of the legislation,
19 as I understand it, was to take some steps now so that
20 in the future there would not be a health hazard.

21 Would you agree with that?

22 MR. SAWYER: I would agree with that.

23 THE CHAIRMAN: Isn't it also true -- This
24 thought occurred to me yesterday. A lot of the
25 opponents of the sewers out there are also very much