



CITY OF PORTLAND ENVIRONMENTAL SERVICES



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M E M O R A N D U M D R A F T

September 22, 2023

TO: Dawn Uchiyama, Bureau Director

FROM: Anthony Martin, Rate Study Project Manager

RE: Rate Study Implementation Recommendations

In 2019, BES underwent a consultant-led comprehensive review of sanitary sewer and stormwater rates, the Clean River Rewards stormwater discounts, system development charges, and other fees. This process is known as a 'rate study'. The desired outcomes of the rate study are below:

- Recovers costs in proportion to the demands various customer classes place on the sanitary sewer and stormwater system;
- Considers the financial impacts on all Portlanders;
- Reflects Environmental Services' values;
- Is administratively feasible to implement;
- Removes barriers to accessing services and incentive programs; and
- Serves as the basis for larger conversations around affordability, equity, and long-term revenue needs.

It is important to note that several items were not considered in the rate study: low-income assistance or other affordability programs, changes in our mission, increases or decreases in revenue, or changes in the capital improvement program.

In December 2019, the consultant provided a Utility Benchmarking memo comparing BES to peer agencies and industry standards as well as an Environmental Scan memo that summarized the key themes from policy discussions and technical workshops with stakeholders. These memos provided the basis of areas to focus on during the rate study.

In March 2022, the bureau received a report from the consultant titled 'Preliminary Report: Sanitary Sewer & Stormwater Comprehensive Rate Study'. The report identified multiple options for each of the areas under analysis based on desired outcomes.

In August 2022, after internal discussions about the difficulty of large-scale public involvement with so many options, the consultant produced two recommended packages of options for how to move forward with rates, fees, SDCs, and credits.

Starting in February 2023, the bureau conducted public outreach to gather community feedback on changes to the rate methodology as well as larger issues like affordability.

The output memo, 'Rate Study Community Engagement Summary', summarizes the public input received and changes to the recommendations based on that feedback.

This memo summarizes the final rate study recommendations based on the documents listed above. For additional references and information, please refer to the reports and memos mentioned above.

Recommendation 1 – Align Rates with Cost of Services

The first recommendation from the rate study is to align rates with the updated cost of providing service. As noted in reports, bureau investments and programs have changed since the last comprehensive rate study in 2005. Additionally, certain adjustments are necessary to align special customer class rates with the cost of providing service. This results in the following high-level changes to the rate structure:

- Revenue collection shifts to collect less revenue from sanitary rates and more from stormwater rates to reflect the current levels of spending in these two areas.
- Portland Harbor Superfund cost allocation between sanitary sewer and stormwater is adjusted to match the peak flow of the combined system.
- Cost recovery of financial assistance programs shifts so that it come from all customers rather than residential customers only.
- Special customer class rates are adjusted to match the cost of providing service. This results in:
 - Extra strength and special meter rates decrease.
 - Customers within the drainage districts will now pay rates that are 96.6% of stormwater rates for the rest of the city. These customers currently pay rates that are 65% of stormwater rates for the rest of the city.
 - Customers with overwater structures will again pay stormwater user charges and will be charged rates that are 88% of the stormwater rates charged for over-land impervious area. These structures currently are not subject to stormwater rates.
- The rate for publicly-owned drinking or single-pass water fountains will not be adjusted to the cost of providing service. Recognizing that this rate is only charged internally to the City of Portland and is for popular items such as the Benson Bubblers, BES will continue discussions about the appropriate cost recovery level.

Recommendation 2 – Modify Stormwater Charge Basis

The second recommendation is to modify the stormwater charge basis. Currently, stormwater rates are charged to customers based on stormwater billable area (SBA)¹. Costs are shown on a customer's bill as 'on-site' (35%) and 'off-site' (65%). The recommended rate structure removes the on-site/off-site distinction and adds Equivalent Service Units (ESUs) to the stormwater charge.

The proposed rate structure bills customers based on SBA and ESUs. SBA will cover 80% of the costs, the remaining 20% will be charged based on ESUs. An ESU is calculated based on number of people per dwelling where 1 single family dwelling is 1 ESU, 1 multifamily dwelling is 0.65 ESU, and 2,400 SF of stormwater billable area is 1 ESU. Commercial customer ESUs are calculated based solely on SBA as commercial customers do not have dwellings.

¹ Stormwater billable area means "the sum of the impervious area, overwater billable area, and area of pervious pavement, excluding areas covered by compacted soils and compacted gravels." This is an update to the current customer statistic of impervious area, which was defined in multiple sections of the code differently and unintentionally excluded certain billable surfaces.

By using the combination of ESUs and SBA, the new stormwater charge reflects the impact of SBA on our storm system, while also accounting for population impacts on the storm system via the ESU charge.

Recommendation 3 – Tier Stormwater Rates for Single Family Dwelling Structures

The third recommendation is to tier stormwater rates for single family dwellings. Currently, all single family dwellings are charged 2,400 square feet (SF) of SBA per unit. The proposed structure places each single family dwelling into four tiers based on estimated SBA on the property. The four tiers are:

- Tier 1 (charged 1,200 SF) – Properties with less than 1,600 SF of SBA. Approximately 20% of the customer class will be in this tier.
- Tier 2 (charged 2,400 SF) – Properties with between 1,601 and 3,200 SF of SBA. Approximately 60% of the customer class will be in this tier.
- Tier 3 (charged 3,600 SF) – Properties with more than 3,201 SF of SBA. Approximately 20% of the customer class will be in this tier. BES is still defining the upper limit of tier 3.
- Tier 4 (charged actual SBA)– Properties that will be charged based on measured SBA. BES is still defining the lower limit of tier 4. Very few properties will be in tier 4.

Recommendation 4 – Update System Development Charges (SDCs)

There are several recommendations to update System Development Charges, or one-time charges to development and redevelopment for the increased usage of the sanitary and stormwater systems. Changes to the current SDC system are in two categories – unit cost of capacity and service unit requirements.

First, the rate study recommended updates to the unit cost of capacity, or the capacity of the system and costs included in the SDC. The sanitary sewer system capacity was increased to account for recent capacity improvements at the treatment plant. The Stormwater system capacity was adjusted based on updated buildout development assumptions. On the cost of the SDC, there is a recommendation to include 0.5% to SDCs related to the cost of complying with SDC law, a standard practice for cities collecting SDCs.

The rate study also recommended changes to the SDC service unit requirements, or how development impacts are measured and SDCs charged to a specific property. For the sanitary SDC, the charge basis has been updated from a flow-based charge based on equivalent dwelling units (EDUs) to a flow- and load-based charge based on drainage fixture units (DFUs). While EDUs are still used to calculate the capacity of the system, specific developments will be charged based on DFUs. For the stormwater SDC, the charge basis has been updated to only charge impervious area instead of impervious area, trips, and linear feet of frontage. Additionally, both SDCs previously charged dwellings based on class average impacts of a dwelling. With the readily available data, it is recommended to move to charge dwellings based on actual impacts.

Recommendation 5 – Update Clean River Rewards

The next recommendation is to update the Clean River Rewards program to simplify the application, increase ratepayer accountability, and update underlying qualifications. The maximum credit is currently 35% of the total stormwater charge, which will stay the same.

Program adjustments include adding a renewal requirement, removing the requirement that accounts have no outstanding balances, including drainage district customers, and

shifting from a fairly complex credit calculation to a simpler credit calculation based on compliance with existing stormwater regulations. In addition, BES will update the eligibility criteria to give applicants the opportunity to address or fix potentially disqualifying issues on their property before they are removed from the program.

BES Recommendation – 3-Year Phase-In of Rate Changes

The final recommendation is to phase in rate adjustments related to the rate study over the three-year period following implementation. This recommendation is based on public outreach in which BES heard the need to phase in rate impacts as a way to mitigate the impact of changes, particularly increases, some customers will experience.

While a longer phase-in could further mitigate the impact of increases for some customers, it also lengthens the time in which certain customers are paying more than the cost of providing service. Additionally, phasing in rates over long periods of time, particularly as BES is required to have annual council approval of rate changes, is administratively difficult.

Three years balances the desire to mitigate large changes in the short term while achieving cost of service rates in a reasonable amount of time.

Summary Rate Table and Impact Change

A summary of the package decisions and general impacts are shown below.

Element	Current	Recommended
System Cost Allocations	Current framework	Updated COS framework
Sanitary Sewer Rate Structure	Volumetric charge	Volumetric charge
Stormwater Rate Structure: Basis for Charge	IA charge (100 percent)	IA charge (80 percent) ESU charge (20 percent)
Stormwater Rate Structure: Single-Family Residential Customers	Uniform charge (no tiers)	4-Tiered (3 class average tiers, plus one measured)
Stormwater Rate Structure: Special Customers	Current policy provides exemption for overwater structures, 35% discount for drainage district customers	Cost-of-service-based rates for overwater and drainage district customers
Clean River Rewards	35% discount Once enrolled, always enrolled Accounts with outstanding balances denied Drainage district customers not eligible for discount Direct dischargers automatic full credit	35% discount Require enrollment to be renewed periodically Accounts with outstanding balances accepted Drainage district customers eligible for discount Direct dischargers credit based on outcomes-based program eligibility
SDC - System Asset Allocations	CSO assets allocated to sanitary sewer system only	CSO assets allocated to sanitary sewer system only
Sanitary Sewer SDC Structure	Flow structure based on Equivalent Dwelling Units (EDUs)	Flow and load structure based on Drainage Fixture Units (DFUs)
Stormwater SDC Structure	IA, average daily trips, and front footage	IA only structure
SDC Compliance Costs	Exclude compliance costs	Include compliance costs
Phase-In	N/A	3-Years

In general, the recommended changes produce the following impacts on customers.

Rate Impacts

- Cost recovery shifts:
 - From wastewater to stormwater.
 - From residential to commercial customers.
 - In stormwater, from single family and commercial customers to multifamily customers.
- Customers who will generally see lower bills include customers with high extra strength usage (restaurants, breweries, certain industrial developments), higher sewer flow, and single family customers in Tier 1.
- Customers who will generally see higher bills include commercial customers with higher impervious area, dense multifamily customers, customers with overwater structures, customers within the drainage district, and single family customers in Tier 3 and Tier 4.

Clean River Rewards Impacts

- Increase participation in the program.
- Increase accountability by adding renewals for unregulated participants.
- Increase connection between CRR and stormwater regulations.

SDC/Fee Impacts

- Reduce SDC for smaller housing and multifamily housing units.
- Increase SDC for large commercial/industrial developments with high impervious area.
- Increase SDC for large single family housing.
- Increase SDC for customers with high-strength sewer flow.

Supplemental Recommendation – Remove the Line and Branch and Nonconforming Sewer Charges

The final recommendation relates to charges for connecting to the sanitary system. Unlike SDCs which are charged for a development's impact on the capacity of the system, these charges are for the cost to connect to the system. The recommendation is to remove line and branch and nonconforming sewer charges.

The direct recommendation from the consultant was to update the methodology behind line and branch charges. In convening a group of BES stakeholders on updating the methodology, several other issues were identified as well as the relation to BES' nonconforming sewer charges. After deliberation, staff recommended to remove line and branch and nonconforming sewer charges.

Already Implemented Recommendations – Adjust Fee Methodologies

The final set of recommendations cover the consultant related recommendations to the miscellaneous BES fee methodologies. BES felt these recommendations were aligned with best practices and implemented them without public outreach.

- Round fees to the nearest \$5
 - BES implemented this recommendation in the FY 2022-23 rate ordinance.
- Update administrative support factors and update projects included in the Offsite Management Fee charged for lack of regulatory compliance.
 - BES implemented these recommendations in the FY 2023-24 rate ordinance.