

THE CONNECTION BETWEEN REGIONALIZATION AND THE OPEN RESERVOIR REPLACEMENT PROJECT

1) What are the Friends' concerns about the move toward a regional water authority?

The Friends believe that the decision to bury the reservoirs was directly connected to the desire to regionalize the water system. In the remainder of this paper, we explain this connection.

We believe that the Water Bureau would prefer a regional authority with an appointed water board that would keep the public at arms length. We believe that consultants who have been pushing for huge infrastructure investments feel that this is an opportunity to either completely privatize the system or, at a minimum, privatize the management of the regional water authority.

The Friends are deeply committed to the necessity of direct public oversight of the water system. We believe that the creation of a regional water authority with an appointed board would effectively remove public oversight. We believe that Portland's interests would not be served by ceding ownership or control of the assets that ratepayers have funded over a century. We are disturbed that the valuation of the Bull Run dam and associated water rights has been kept artificially low in order to make the sale attractive to suburban buyers. We contend that the methods used to value this resource are inappropriate because this is a situation with no comparables. We reject the global trend toward sale and privatization of public assets especially public utilities.

2) What was the impetus for discussion of a regional water authority?

The discussions began as many of the suburban jurisdictions that purchase water from Portland were nearing the end of their 30 year contracts with the City. Given that these were up for negotiation, Commissioner Sten felt it would be a good time to initiate discussion of an alternative arrangement. Commissioner Sten was also responding to three pressures from suburban water buyers: (a) their concern over lack of control over water rates, (b) their concern that they were subsidizing Portland's water system capital improvements through their contracts, (c) their willingness to pursue alternative sources of water.

3) What was on the table in the discussions of a regional water authority?

Transfer and sale of all of Portland's assets including Bull Run, the well fields and the distribution system to a regional agency was on the table. Less comprehensive proposals such as Portland's retention of its distributions system were also discussed.

4) Was privatization of the regional authority considered?

Commissioner Sten publicly stated his opposition to private ownership of the regional water agency. He personally instructed the water bureau negotiators to take this issue off the table. During the negotiations, concerns about privatization were raised by Portland's Office of Management and Finance (OMF). The water bureau response to OMF stated that a regional agency, structured as an intergovernmental agreement, legally excludes private partners. However these statements did not foreclose the option. Creating the regional agency through an intergovernmental agreement is only one way to structure the agreement. Regional agencies such as the Port Authority and Metro are state-chartered organizations. A regional water agency, especially if it required transfer of assets and had condemnation, bonding, and rate setting authority, would probably require a state charter.

The creation of a state chartered water authority could reopen the door to some form of privatization. While outright ownership of the assets and authority may remain with the regional authority, no one, including Sten, specifically excluded privatization of water system management. In fact, this would seem to be a likely option because of interjurisdictional concerns. Non-Portland participants might feel more comfortable with a private contractor not staffed by former employees of Portland, the dominant partner. Privatization of management would be advantageous to the new agency because it would overcome many of the personnel, union contract and pensions issues associated with moving employees between government agencies. Privatization would be consistent with a general trend of private and public organizations to outsource management to shed these responsibilities.

5) Since Portland seemed to be in an advantageous negotiating situation and also seemed to have the most at risk by ceding control of its assets to a regional agency, why did Portland promote regionalization.

Portland was looking forward to significant system investments and was hoping to share the burden of these costs with suburban water buyers. Among the long

term capital projects were expenditures for deferred maintenance, significant costs to raise the dam at Bull Run or add another dam, and the proposed \$250 million filtration plant at Powell Butte. These combined costs would exceed a half billion dollars. To fund these, Portland would be required to impose substantial and repeated water rate increases on Portland and suburban rate payers and this, it was

feared, could inspire ratepayer resistance. It was also assumed that if suburban districts were not given some control of the water system they would seek other sources of water and may build water infrastructures large enough to allow them to sell water and compete with Portland on price.

6) Were the negotiations to develop a regional water authority successful?

The answer is no, but with qualifications. The negotiations to create a regional authority have now ended. Serious concerns were raised by Portland's Office of Management and Finance in their analysis of the proposal. In their seven pages of questions they asked how Portland would benefit, whether the sale would be legal, whether it would be approved by the US Forests Service that owns the Bull Run watershed, and how bond indebtedness would be handled. Their most serious concern was with the lack of independent valuation of the system.

Ultimately, it was the issue of valuation that ended current discussions about creating a regional authority. Portland's initial asking price was more than double what suburban customers were willing to consider. When the OMF identified the need for an independent evaluation, the suburban governments refused to share the cost. At this point, Portland withdrew the proposal. However, the back door to regionalization was left open when Portland urged suburban water jurisdictions to consider joint ownership of new facilities.

7) What is the current status of the negotiations?

While discussions about a regional water agency seem to have ended, and the sale of existing assets such as Portland's distribution system are off the table, movement toward the goal of regionalization is still occurring. As Portland renegotiates contracts it has opened the door to shared ownership of new facilities such as a new dam at Bull Run, but more importantly, joint ownership of the proposed \$250 million membrane filtration plant at Powell Butte.

8) What is the relationship between the reservoir issue and the efforts to regionalize the water system?

From the beginning, the Friends have realized that the decision to replace the reservoirs with buried tanks was connected to the plan to regionalize the system. As one water bureau director stated, “it would make no sense to build a \$250 million filtration plant at Powell Butte and then send this costly filtered water to an open reservoir for storage.” And the ability to fund the membrane filtration plant was tied to the plan of cost sharing included in the various regionalization proposals.

The ability of the water bureau and their consultants to make a case for building the filtration plant stood on four pillars. First was their belief that the Bull Run should be the source to supply the increased water demand they were projecting for the region. Second was their argument that a regional authority would spread the cost for infrastructure investments such as raising the level of the Bull Run dam and building a membrane filtration plant. Third was the argument, which the Friends specifically reject, that filtration is necessary to meet water quality standards. The fourth pillar was burying the reservoirs. Filtration would not fly if the reservoirs remained uncovered. Of all of the four pillars, the reservoirs were the ones the water bureau had most control over and therefore the ones they would act on first even though it was not a priority in their long term capital improvement plan.

9) How does all this tie together?

It appears that the keystone in the decision to bury the reservoirs was the push to build the \$250 million membrane filtration plant at Powell Butte. This could explain why the water bureau has opposed treatment at the reservoir outlets even though it would be far less expensive. They are holding on to their consultant driven plan to build the large centralized filtration plant even as the situation has dramatically shifted. Regionalization of the system has taken a serious, perhaps fatal, blow, negotiations with suburban districts to share costs on the filtration plant are uncertain, suburban districts are pursuing other water sources and substituting their own supply for water purchased from Portland, demand for water supplied by Portland is declining rather than rising, citizen groups such as the Friends and the Portland Water users Coalition have raised serious concerns about the need for the filtration plant and proposed water rate increases. In addition, the Friends have proposed reasonable watershed enhancement alternatives to lower turbidity and have demonstrated that Portland water quality is so high that the need for filtration is a highly questionable.