
Why a New Water District Might Not Save Cash: Higher Interest Rates.

The people hoping to snatch Portland's water and sewer systems away from city hall are basing their campaign on your wallet.

"Water rates have risen 160.8 percent since 2000," shouts a website for the group Portlanders for Water Reform. "Help us curb city hall abuses and reform Portland's out-of-control water and sewer utilities!"

The implication is: Vote to create a new seven-member board, give it the keys, and save money. But that attractive claim is not so simple, a Mercury review has found. Not by a long shot.

What the campaign to create an independent water district doesn't acknowledge—indeed, something one of its leaders didn't appear to realize in a recent interview—is that Portland's rate increases, while perhaps not popular, actually make us one of the safer bets on Wall Street. And that can save the city big bucks in the long run.

How come? About every other year, the city borrows millions to make infrastructure improvements. And for the investors who finance that work, paying to purchase municipal bonds, rate hikes are a sign the city is serious about paying the money back. That certainty helps interest rates on the city's debt remain low—which is how Portland comes out ahead.

A new board with an ethos opposed to rate increases could jeopardize those interest rates in the future, city officials warn and bond experts acknowledge.

"Will imperil the bond rating," says Commissioner Nick Fish, commissioner of water and environmental services since June—and a consistent target of the campaign.

Meanwhile Kent Craford, a primary petitioner in the push for an unprecedented new district, calls the argument "pointy-headed," and says it's not an issue.

Craford's a little right. Municipal bonds, for the uninitiated, are a bit "pointy-headed." So let's make it simple: They're the tools by which cities—every city—are able to borrow quick cash for road repairs, library funds, schools, and, yes, water and sewer systems.

But they're not all created equal. Ratings agencies like Moody's and Standard & Poor's, with their armies of analysts, study the make-up of each city—tax base, unemployment, industry—and decide how likely those debts might be paid back, with interest.

Different agencies have different criteria and ratings. Moody's tops out at Aaa then descends into Aa ratings (Aa1, Aa2, Aa3), then A, then Baa, and so forth.

The City of Tigard, when it borrowed $102.5 million for its water system last year, got an A1 rating for those bonds.

And the City and County of Denver, Colorado, in borrowing against its water revenues, is rated at Aa1—nearly perfect.

Portland's rating on its oldest water bonds? Aaa—a rare designation.

"Increasingly so," says Matt Fabian, managing director of Municipal Market Advisors, a Massachusetts bond research firm. "There aren't many Aaa's left in the world."

The city boasts that it's one of fewer than 12 water agencies in the country with a perfect rating. That, officials say, reduces borrowing costs.

"For example, in today's market, a 20-year bond maturity for a Aaa-rated water provider might carry an interest rate of around 3.85 percent," the Portland Water Bureau wrote in response to a recent City Club of Portland query about interest rates. "A comparable 20-year maturity for an A-rated water provider (such as the City of Salem) might incur a comparable interest rate of around 4.35 percent."

That's a paltry half a percent of difference. In the life of a bond, though, it's a lot of money.

At the Mercury's request, the city's number crunchers offered some quick calculations. For a $50 million bond sale, with a life span of 25 years, a 4.5 percent interest rate would result in $86.2 million in total costs. At 5 percent, that would increase to $90.6 million. At 5.5 percent interest, the city would pay $95.1 million.

Portland's so-called "Water House," that oft-derided showpiece championed by former Commissioner Randy Leonard, cost $940,000. A half-percent increase in interest rates, under the city's scenario, amounts to more than four times that.

And the $50 million in the city's example is actually pretty low. The water bureau's last bond sale, earlier this year, was for more than $243 million. The Portland Bureau of Environmental Service's last sale—rated Aa3—was for $208.5 million.

People from Moody's and Standard & Poor's balked when asked whether the proposed new district could swing Portland's ratings.

"We consider ourselves observers," Moody's spokesman David Jacobson says. "We don't want to influence any sort of political process."

But the agency's reports to investors place a premium on rate decisions. In an analysis of a Portland Water Bureau bond sale earlier this year, Moody's listed "regular water rate increases," among its strengths.

The analysis made note of another contentious factor in the city's water politics—the federally mandated, $228 million construction of underground reservoirs on Powell and Kelly Buttes. "Regulatory requirements," the analysis says, mean the city will need to keep asking for money.

So what could make the city's bond rating sink? "Insufficient pace of water rate increases to cover escalating operating expenses and debt service," Moody's says.

Escalating costs from unfunded mandates aren't just a Portland problem. Fabian, the Massachusetts analyst, recalls attending a recent national conference of city leaders.

"The mayors, to a person, are talking about how the rates they have to charge are increasingly unaffordable," he says. "It's a nationwide issue."

Beyond the reservoir work, Portland also must continually replace century-old infrastructure, like the busted water main that snarled traffic on West Burnside on Tuesday, October 29. And the city elected to build the "Big Pipe" to keep sewage out of the Willamette—with big ramifications for sewer rates.

"The problem they're trying to fix is retroactively trying to get out of the Big Pipe," Fish says of the industrial interests behind Portlanders for Water Reform. "If it wasn't for the Big Pipe, you wouldn't have seen these rate increases."

Portland's locked into paying its bond debts—otherwise, we'd be the next Detroit. And Craford, in a recent interview, wasn't aware utility rates play a role in bond ratings.

"If that's the case, and they still haven't downgraded us, these companies aren't paying attention," he says.

Craford also dismissed the notion his proposal would jeopardize the city's credit—even though paying for ongoing projects, which will require future bond sales, will be tough without further increases.

Fabian, who perused the measure, called it "a political trifle, as opposed to an idea that would actually save money."

But Craford insists money could be found, by minimizing future debt, firing employees, and, yes, putting off replacing Portland's aging infrastructure.

"They keep trying to sell us new products each year," Craford says. "It's a voracious and unquenchable appetite."

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