



## City Budget Office

# Portland Water Bureau

*Analysis by Yung Ouyang*

## INTRODUCTION

Many of the Portland Water Bureau's (PWB) Spring supplemental adjustments involve the budgeting of additional revenue from several widely differing sources. Even with the reductions in budget for several large capital projects that the bureau made in the Fall Supplemental Budget, there are still differences between budget and projections of actual spending by year-end largely due to a bond sale that is included in the budget but will no longer be occurring in FY 2018-19. The Hydropower Division, while a small portion of the bureau's budget, is realizing additional expenses at the same time that its primary revenue source – power sales – is significantly down due to drought conditions.

## KEY DECISIONS

- **Appropriate or transfer additional revenues from several different sources:**
  - \$4,002,368 of additional capital revenue is transferred to the Water Construction Fund from the bureau's operating fund; this is simply a true-up of funds received in the prior year. (Recommended)
  - \$3,350,000 from the Portland Housing Bureau is received for that bureau's purchase of PWB's Carey Boulevard property. (Recommended)
  - \$4,830 of interagency revenue from the Office of Community & Civic Life is appropriated for the lease of PWB property. (Recommended)
  - \$85,244 in grant revenue from ODOT and associated expenses are budgeted for reimbursement for the bureau's work on the Johnson Creek Bridge Replacement project. (Recommended)
- **Draw from contingency for the following purposes:**
  - \$273,130 from the Hydroelectric Power Operating Fund's contingency for additional tree trimming and transmission line maintenance costs, as well as for Oregon Department of Fish and Wildlife fees. (Recommended)
  - \$22,000 from the Water Fund's contingency for a \$12,000 increase in the bureau's interagency agreement with the Revenue Bureau for trailing water-related charges subsequent to the move of billing functions to PWB and a \$10,000 increase in the interagency agreement with the City Budget Office for additional Portland Utility Board support. (Recommended)

- **Increase interagency agreements:**
  - \$123,432 of additional revenue from the Water Division is paid to the Hydroelectric Power Division for engineering services and line maintenance work. (Recommended)
  - \$250,000 with OMF-Facilities for Mount Tabor preservation work, rental property, maintenance work orders, and customer services security, offset by \$50,000 of savings in the IA for printing and distribution, with the rest funded by savings in external materials & services. (Recommended)
  
- **Process minor technical adjustments:**
  - \$23,976 is transferred from external materials & services to capital outlay to correct a negative entry in the budget for the Willamette River Pipe Crossing project. (Recommended)
  - \$2,509,334 is transferred from external materials & services to capital outlay to properly categorize certain expenses for the Bull Run Filtration project. (Recommended)
  - \$200,000 is transferred from external materials & services to internal materials & services for an IA with Portland Parks & Recreation for work at Washington Park due to the construction of the reservoir. (Recommended)

## DISCUSSION

### *Hydroelectric Power Division Adjustments*

A couple of the bureau's Spring BMP adjustments pertain to the Hydroelectric Power Division. Although comprising a relatively small portion of PWB's entire budget, these adjustments deserve mention simply because the division's primary funding source – power sales – is projected to be significantly below budget at year-end. As noted above, PWB is drawing \$273,130 from the Hydroelectric Power Operating Fund's contingency to pay for additional tree trimming and transmission line maintenance expenses (\$75,864) and to pay the Oregon Department of Fish and Wildlife fees related to fish hatcheries in the Bull Run watershed (\$197,266). These contingency draws amount to about 11.0% of the fund's pre-Spring BMP contingency. However, the division is also realizing an additional \$123,432 in interagency revenue from PWB's water-providing division for engineering services (\$85,500) and line maintenance work performed in the watershed (\$37,932), which the bureau is budgeting back into the Hydroelectric Power Operating Fund's contingency.

PWB projects to collect only \$1,350,000 out of \$2,261,677 originally budgeted (or 59.7%) in the fund's miscellaneous revenues, where power sales revenue is budgeted. The bureau attributes the reduction in power sales to lower rainfall in the watershed during the fall and winter months, and its projection assumes a continuing but not worsening trend through the

end of the fiscal year. As a consequence, the bureau has to utilize more resources from the fund's beginning balance to pay for operating expenditures than it had initially planned.

PWB states that the combination of additional expenses and lower revenues will impact the amount of reserves available for the Hydroelectric Division in the near term. The first three contract (calendar) years under the new Power Purchase Agreement were the most susceptible to adverse impacts from low power sales or greater than anticipated costs. Contracted power prices rise after year three, meaning lower sales is less likely to require utilization of reserves. However, a sustained multi-year drought or major equipment failure would require further utilization of the reserves than currently planned. CBO recommends that the bureau continue to monitor the long-term financial sustainability of the division.

### ***Year-End Projections***

Unlike in prior years, PWB significantly reduced the budgets for several of its large capital projects during this year's Fall supplemental budget process instead of during the Spring (see the bureau's Fall BMP submission and CBO's review of it for more details). As a consequence, the bureau projects spending on capital outlay in its operating fund at year-end to be at the revised budget of \$55.0 million. CBO also does not have any concerns with year-end projections of spending in any of the Water Fund's other major expenditure categories. However, the bureau notes that any changes to planned activity for major projects, such as Washington Park Reservoir and the Willamette River Crossing, would impact expenses. PWB states that its projection for capital outlay ending the year at the revised budget amount is largely dependent on continued spending on these two projects, with the Washington Park Reservoir already under construction and the Willamette River Crossing project beginning the design phase. On the revenue side, there are no significant variances between projections and budget except that miscellaneous revenues are projected to be about \$1.0 million, or 46.5%, higher due to higher than planned interest earnings.

Similarly, miscellaneous revenues in the Water Construction Fund is projected to be \$0.9 million, or 90.2%, higher due to higher than planned interest earnings. In addition, charges for services are projected to be \$1.0 million, or 25.0%, higher due to higher than planned System Development Charge revenues. It should be noted that the above-mentioned \$3,350,000 of additional revenue from the sale of the Carey Blvd. property to the Portland Housing Bureau is budgeted in this fund. PWB states that the purchase amount was determined by an appraisal on the property. The bureau notes that the amount will be reflected in the Construction Fund's beginning balance for FY 2019-20 and may be used to fund additional capital work and/or to reduce the issuance amount of the next planned bond sale.

A bond sale was originally planned for FY 2018-19 but will not be occurring until next year. The cancellation of the sale this year is causing variances between budget and year-end

projections in several major budget categories of the Water Fund, the Water Bond Sinking Fund, and the Water Construction Fund, but these are not actual concerns.

## SUPPLEMENTAL BUDGET CHANGES TO ALL FUNDS

*The Portland Water Bureau's budget is contained in the following funds: The Water Fund, the Water Construction Fund, the Water Bond Sinking Fund, the Hydroelectric Power Operating Fund, the Hydroelectric Power Renewal and Replacement Fund, and the Grants Fund.*

	Current Revised Budget (A)	Bureau Request (B)	CBO Recommended Adjustments(C)	Total Recommended Revised (A+B+C)
<b>Resources</b>				
Budgeted Beginning Fund Balance	\$ 232,422,206	\$ -	\$ -	\$232,422,206
Charges for Services	193,905,167	-	-	193,905,167
Intergovernmental Revenues	526,000	85,244	-	611,244
Interagency Revenue	3,532,367	128,262	-	3,660,629
Fund Transfers - Revenue	236,823,815	(7,647,632)	-	229,176,183
Bond and Note	91,680,000	-	-	91,680,000
Miscellaneous	5,920,767	-	-	5,920,767
<b>Total Resources</b>	<b>\$764,810,322</b>	<b>(\$7,434,126)</b>	<b>\$0</b>	<b>\$757,376,196</b>
<b>Requirements</b>				
Personnel Services	\$ 76,484,076	\$ -	\$ -	\$ 76,484,076
External Materials and Services	44,569,769	(2,660,180)	-	41,909,589
Internal Materials and Services	22,251,874	545,432	-	22,797,306
Capital Outlay	52,502,425	2,618,554	-	55,120,979
Bond Expenses	62,557,700	-	-	62,557,700
Debt Service Reserves	36,218,013	-	-	36,218,013
Fund Transfers - Expense	240,873,506	(10,997,632)	-	229,875,874
Contingency	164,930,591	(25,501,282)	-	139,429,309
Unappropriated Fund Balance	64,422,368	28,560,982	-	92,983,350
<b>Total Requirements</b>	<b>\$764,810,322</b>	<b>(\$7,434,126)</b>	<b>\$0</b>	<b>\$757,376,196</b>

**WA - Portland Water Bureau**

**DP Type**

**Contingency**

**Request Name:** 8049 -Cash Transfer Adjustment

**Package Description**

Adjust cash transfers between water bureau funds for additional capital revenue received in the prior year that will be transferred to the construction fund and reduced capital expenditures expected in FY 2018-19.

**Service Impacts**

N/A

**Equity Impacts**

N/A

**CBO Analysis**

Recommended as requested. The bureau has historically adjusted cash transfers during the Spring BMP. It notes that going forward, prior year transfer adjustments will now be made in the Fall BMP. \$4,002,368 of additional capital revenue is transferred to the Water Construction Fund from the bureau's operating fund; this is simply a true-up of funds received in the prior year. In regards to the \$15 million related to reduced capital expenditures, PWB states that normally it would not reduce the cash transfers for current year expenses, but that the adjustment was required in order to prevent a negative fund balance in the Water Construction Fund if the planned bond sale was removed.

<b>Budget Detail</b>					
<b>Fund</b>					
			<b>2018-19 SPRING Requested Adj</b>	<b>2018-19 SPRING CBO/ Council Adj</b>	<b>2018-19 SPRING Recom Total</b>
	<b>Major Object Name</b>	<b>Expense</b>			
602000	Contingency		-19,002,368	0	-19,002,368
602000	Fund Transfers - Expense		4,002,368	0	4,002,368
615000	Contingency		-6,208,614	0	-6,208,614
615000	Ending Fund Balance		25,210,982	0	25,210,982
615000	Fund Transfers - Expense		-15,000,000	0	-15,000,000
		<b>Sum:</b>	<b>-10,997,632</b>	<b>0</b>	<b>-10,997,632</b>
			<b>2018-19 SPRING Requested Adj</b>	<b>2018-19 SPRING CBO/ Council Adj</b>	<b>2018-19 SPRING Recom Total</b>
	<b>Major Object Name</b>	<b>Revenue</b>			
602000	Fund Transfers - Revenue		-15,000,000	0	-15,000,000
615000	Fund Transfers - Revenue		4,002,368	0	4,002,368
		<b>Sum:</b>	<b>-10,997,632</b>	<b>0</b>	<b>-10,997,632</b>

**WA - Portland Water Bureau DP Type Contingency**

**Request Name:** 8052 -Hydroelectric Power Division Adjustment

**Package Description**

Increase appropriation \$75,864 for tree trimming expense and transmission line maintenance as well as \$197,266 for Oregon Department of Fish and Wildlife fees.

**Service Impacts**

N/A

**Equity Impacts**

N/A

**CBO Analysis**

Recommended as requested. A couple of the bureau's Spring BMP adjustments affect its Hydroelectric Power Division which, although comprising a relatively small portion of PWB's entire budget and is quite separate from the bureau's water-providing function, deserve mention simply because its primary funding source – power sales – is projected to be significantly below budget at year-end. As noted above, PWB is drawing \$273,130 from the Hydroelectric Power Operating Fund's contingency to pay for additional tree trimming and transmission line maintenance expenses (\$75,864) and to pay the Oregon Department of Fish and Wildlife fees related to fish hatcheries in the Bull Run watershed (\$197,266). The draw amounts to about 11.0% of the fund's pre-Spring BMP contingency. However, the division is also realizing an additional \$123,432 in interagency revenue from PWB's water-providing division for engineering services (\$85,500) and line maintenance work performed in the watershed (\$37,932), which the bureau is budgeting back into the Hydroelectric Power Operating Fund's contingency.

Nevertheless, CBO is highlighting these adjustments because the Hydroelectric Power Division's primary revenue source – that of power sales – is projected to be significantly below budget at year-end; PWB projects to collect only \$1,350,000 out of \$2,261,677 originally budgeted (or 59.7%) in the fund's miscellaneous revenues, where power sales revenue is budgeted. The bureau attributes the reduction in power sales to lower rainfall in the watershed during the fall and winter months, and its projection assumes a continuing but not worsening trend through the end of the fiscal year. As a consequence, the bureau has to utilize more resources from the Fund's beginning balance to pay for operating expenditures than it had initially planned.

PWB states that the combination of additional expenses and lower revenues will impact the amount of reserves available for the Hydroelectric Division in the near term. The first three contract (calendar) years under the new Power Purchase Agreement were the most susceptible to adverse impacts from low power sales or greater than anticipated costs. Contracted power prices rise after year three, meaning lower sales is less likely to require utilization of reserves. However, a sustained multi-year drought or major equipment failure would require further utilization of the reserves than currently planned. CBO recommends that the bureau continue to pay attention to the long-term financial sustainability of the division.

**Budget Detail**

**Fund**

Major Object Name	Expense	2018-19 SPRING Requested Adj	2018-19 SPRING CBO/ Council Adj	2018-19 SPRING Recom Total
601000	Contingency	-273,130	0	-273,130
601000	External Materials and Services	273,130	0	273,130
	<b>Sum:</b>		<b>0</b>	<b>0</b>

**WA - Portland Water Bureau**

**DP Type**

**Internal Transfer**

**Request Name:** 8054 -Hydro Interagency Adjustments

**Package Description**

A. Interagency with Risk Management: This is a request to transfer the commercial insurance portion of the Risk Management interagency agreement for \$1,243 to the Water Division. This was loaded by OMF in error to the Hydroelectric Power Division.

B. This is a request to adjust the interagency agreements between the Hydroelectric Power Division and Water Division \$85,500 for engineering services provided by Hydro and \$37,932 for line maintenance work performed in the Bull Run Watershed.

**Service Impacts**

N/A

**Equity Impacts**

N/A

**CBO Analysis**

Recommended as requested. A couple of the bureau's Spring BMP adjustments affect its Hydroelectric Power Division which, although comprising a relatively small portion of PWB's entire budget and is quite separate from the bureau's water-providing function, deserve mention simply because its primary funding source – power sales – is projected to be significantly below budget at year-end. As noted above, PWB is drawing \$273,130 from the Hydroelectric Power Operating Fund's contingency to pay for additional tree trimming and transmission line maintenance expenses (\$75,864) and to pay the Oregon Department of Fish and Wildlife fees related to fish hatcheries in the Bull Run watershed (\$197,266). The draw amounts to about 11.0% of the fund's pre-Spring BMP contingency. However, the division is also realizing an additional \$123,432 in interagency revenue from PWB's water-providing division for engineering services (\$85,500) and line maintenance work performed in the watershed (\$37,932), which the bureau is budgeting back into the Hydroelectric Power Operating Fund's contingency.

Nevertheless, CBO is highlighting these adjustments because the Hydroelectric Power Division's primary revenue source – that of power sales – is projected to be significantly below budget at year-end; PWB projects to collect only \$1,350,000 out of \$2,261,677 originally budgeted (or 59.7%) in the fund's miscellaneous revenues, where power sales revenue is budgeted. The bureau attributes the reduction in power sales to lower rainfall in the watershed during the fall and winter months, and its projection assumes a continuing but not worsening trend through the end of the fiscal year. As a consequence, the bureau has to utilize more resources from the Fund's beginning balance to pay for operating expenditures than it had initially planned.

PWB states that the combination of additional expenses and lower revenues will impact the amount of reserves available for the Hydroelectric Division in the near term. The first three contract (calendar) years under the new Power Purchase Agreement were the most susceptible to adverse impacts from low power sales or greater than anticipated costs. Contracted power prices rise after year three, meaning lower sales is less likely to require utilization of reserves. However, a sustained multi-year drought or major equipment failure would require further utilization of the reserves than currently planned. CBO recommends that the bureau continue to pay attention to the long-term financial sustainability of the division.

**Budget Detail**

Fund		2018-19 SPRING Requested Adj	2018-19 SPRING CBO/ Council Adj	2018-19 SPRING Recom Total
Major Object Name	Expense			
601000	Contingency	124,675	0	124,675
601000	Internal Materials and Services	-1,243	0	-1,243
602000	Contingency	-124,675	0	-124,675
602000	Internal Materials and Services	124,675	0	124,675
<b>Sum:</b>		<b>123,432</b>	<b>0</b>	<b>123,432</b>

Major Object Name	Revenue	2018-19 SPRING Requested Adj	2018-19 SPRING CBO/ Council Adj	2018-19 SPRING Recom Total
601000	Interagency Revenue	123,432	0	123,432

**F4 - BMP Amendment Request Report**

Run Date: 4/15/19

Details

Run Time: 11:23:06 AM

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**Budget Detail**

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**Fund**

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<b>Major Object Name</b>	<b>Revenue</b>	<b>2018-19 SPRING Requested Adj</b>	<b>2018-19 SPRING CBO/ Council Adj</b>	<b>2018-19 SPRING Recom Total</b>
	<b>Sum:</b>	<b>123,432</b>	<b>0</b>	<b>123,432</b>

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**WA - Portland Water Bureau**

**DP Type**

**New Revenue**

**Request Name:** 8060 -Cash Transfers

**Package Description**

a. Housing Bureau revenue: Transfer \$3,350,000 from the Housing bureau for the purchase of Water bureau's Carey Boulevard property per resolution #189134. b. Office of Community & Civic Life: The Water Bureau will bill Office of Community & Civic Life for the Hazelwood Lease through an interagency.

**Service Impacts**

N/A

**Equity Impacts**

N/A

**CBO Analysis**

Recommended as requested. PWB states that the purchase amount for the Carey Blvd. property was determined by an appraisal on the property. The bureau notes that the amount will be reflected in the Water Construction Fund's beginning balance for FY 2019-20 and may be used to fund additional capital work and/or to reduce the issuance amount of the next planned bond sale.

<b>Budget Detail</b>					
<b>Fund</b>					
			<b>2018-19 SPRING Requested Adj</b>	<b>2018-19 SPRING CBO/ Council Adj</b>	<b>2018-19 SPRING Recom Total</b>
	<b>Major Object Name</b>	<b>Expense</b>			
602000	Contingency		4,830	0	4,830
615000	Ending Fund Balance		3,350,000	0	3,350,000
		<b>Sum:</b>	<b>3,354,830</b>	<b>0</b>	<b>3,354,830</b>
			<b>2018-19 SPRING Requested Adj</b>	<b>2018-19 SPRING CBO/ Council Adj</b>	<b>2018-19 SPRING Recom Total</b>
	<b>Major Object Name</b>	<b>Revenue</b>			
602000	Interagency Revenue		4,830	0	4,830
615000	Fund Transfers - Revenue		3,350,000	0	3,350,000
		<b>Sum:</b>	<b>3,354,830</b>	<b>0</b>	<b>3,354,830</b>

**WA - Portland Water Bureau DP Type Contingency**

**Request Name:** 8064 -Water Interagency Adjustments

**Package Description**

a. Interagency with Facilities: Increase interagency with Facilities \$150,000 for Mt. Tabor Preservation work, rental property, and maintenance work orders. b. Interagency with Facilities: Increase interagency with Facilities \$100,000 for customer services security. c. Interagency with Revenue Bureau: This request is to increase the interagency with the Revenue Bureau \$12,000 for trailing water-related charges from BTS subsequent to the Cayenta move to water on 7/1/18. BTS is working to correct the issue. d. Interagency with City Budget Office \$10,000 for additional PUB support.

**Service Impacts**

N/A

**Equity Impacts**

N/A

**CBO Analysis**

Recommended as requested. The bureau is transferring savings from external materials & services, as well as savings from an IA for printing & distribution services, to pay for the IA increases with Facilities. The other two IA increases are funded by a \$22,000 draw from the Water Fund's contingency. Additional details on the IA increases are as follows. Mt. Tabor: \$120,000 is for Mt. Tabor Preservation work that is being performed by Facilities internal services rather than external services, rental property work, and \$30,000 is for additional maintenance work orders. Work at Mt. Tabor is ultimately funded by the General Fund. Facilities: \$100,000 is the estimated cost for customer services security services at Interstate facility and is funded with reductions in postage /A and professional services. Revenue bureau: \$12,000 is trailing BTS water-related charges subsequent to the Cayenta staff move on 7/1/18. These charges are one-time only and will not be incurred again in the future. CBO: \$10,000 per CBO for PUB: Due to the addition of the 0.5 FTE, CBO is projecting our year-end costs to increase by about \$15,000 to \$20,000 for PUB support. (Total materials and services costs are comparable with prior year costs.) To cover these costs, CBO has increased the IA by \$10,000 for each bureau (PWB and BES). The amount billed will reflect actual costs. Future costs for PUB support will be determined by the PUB and CBO.

<b>Budget Detail</b>					
<b>Fund</b>					
			<b>2018-19 SPRING Requested Adj</b>	<b>2018-19 SPRING CBO/ Council Adj</b>	<b>2018-19 SPRING Recom Total</b>
	<b>Major Object Name</b>	<b>Expense</b>			
602000	Contingency		-22,000	0	-22,000
602000	External Materials and Services		-200,000	0	-200,000
602000	Internal Materials and Services		222,000	0	222,000
		<b>Sum:</b>	<b>0</b>	<b>0</b>	<b>0</b>

**WA - Portland Water Bureau**

**DP Type**

**New Revenue**

**Request Name:** 8074 -Johnson Creek Grant

**Package Description**

Budget projected revenues and expenses for the Johnson Creek Bridge Replacement Grant #TR000256.

**Service Impacts**

N/A

**Equity Impacts**

N/A

**CBO Analysis**

Recommended as requested. \$85,244 in grant revenue from ODOT and associated expenses are budgeted for reimbursement for the bureau's work on the Johnson Creek Bridge Replacement project.

<b>Budget Detail</b>					
<b>Fund</b>					
	<b>Major Object Name</b>	<b>Expense</b>	<b>2018-19 SPRING Requested Adj</b>	<b>2018-19 SPRING CBO/ Council Adj</b>	<b>2018-19 SPRING Recom Total</b>
217001	Capital Outlay		85,244	0	85,244
		<b>Sum:</b>	<b>85,244</b>	<b>0</b>	<b>85,244</b>

  

	<b>Major Object Name</b>	<b>Revenue</b>	<b>2018-19 SPRING Requested Adj</b>	<b>2018-19 SPRING CBO/ Council Adj</b>	<b>2018-19 SPRING Recom Total</b>
217001	Intergovernmental		85,244	0	85,244
		<b>Sum:</b>	<b>85,244</b>	<b>0</b>	<b>85,244</b>