



## SUMMARY

### Required General Fund Reduction

Per Mayor's Budget Guidance, the Portland Water Bureau was required to submit a Fall Supplemental Budget that reduced their General Fund cash transfer by \$13,551. Of that total, \$6,515 in reductions were achieved through the elimination of merit pay, step increases, cost of living adjustments, and furloughs implemented during FY 2020-21 annual budget adoption. The remaining \$7,000 was achieved by reducing costs related to maintenance of park-like amenities such as the HydroParks and portions of Powell Butte.<sup>1</sup>

### Key Decisions for Council

1. Reduce the remaining portion of the Water Bureau's General Fund Cash Transfer revenue by \$7,000.
  - This request was submitted as directed in the Mayor's Budget Guidance for Fall BMP reductions. The corresponding cost reduction is drawn from the bureau's maintenance budget for park-like amenities. This amounts to a 3.5% reduction to a \$196,000 total budget. The bureau anticipates this reduction should have negligible service level impacts.
  - CBO recommends this request
2. Transfer \$1.12 million in budgeted capital construction costs for the Washington Park Improvement Project and transfer this resource to the Bureau of Revenue and Financial Services for the Community Opportunities and Enhancements Program (COEP) Pilot.
  - The bureau had budgeted the costs for the COEP pilot within the project budget. This action moves the cost from the Capital Outlay major object to Internal Materials and Services so the bureau can transfer the money to the Office of Management and Finance.
  - CBO recommends this request.
3. Move General Fund and Water Construction Fund resources carried over for projects not yet completed by reducing the Water Fund's unrestricted contingency and moving those expenses across expenditure objects.
  - This action reduces the Water Bureau's Operating Fund contingency by \$3.14 million and allocates those expenses across the Mount Tabor Reservoirs project, the solar panels at groundwater pump station project, and the purchase of the Water Bureau's share of the Portland Building. The funding for these projects fell to ending fund balance in FY 2019-20. General Fund resource totals

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<sup>1</sup> Maintenance at these parks includes periodic mowing, litter patrol, herbicide application and pruning.

\$233,921 (\$148,846 for the Mount Tabor project, \$85,075 for solar panels). The remaining \$2.90 million is for the purchase of the bureau's remaining share of the Portland Building (the sale was expected to take place in FY 2019-20 but these trailing costs will occur in FY 2020-21). The status of the projects is discussed below.

- CBO recommends this request.

### **Budget & Fiscal Monitoring: Water Rate Revenue Adversely Affected by COVID-19**

- The COVID-19 pandemic and ensuing policy response has led to an 25% decrease in water usage from the bureau's commercial customers. Currently, the bureau is forecasting up to a \$21 million shortfall in revenues in FY 2020-21 from the impacts of COVID-19. The bureau has attributed seventy-two percent of that total, or \$15.2 million, from demand reduction, with the remaining amount caused by foregone delinquency fees and financial assistance including bill discounts. Water demand remains a key factor in water ratemaking methodology. Any material decrease to demand would reduce revenues and thus require the bureau to find corresponding cost reductions to balance, which may include service reductions or rate increases to fund the fixed costs of the utility.
- Residential, non-commercial customers—for which data is collected quarterly—have shown a slight uptick in water usage. However, the small increase in revenue from residential customers is not enough to mitigate the revenue lost from commercial customers.
- Increases in outstanding accounts are also impacting the bureau's water rate revenues. The bureau has experienced a greater number of retail customers who are unable to pay their bill. The bureau's historic collection rate before COVID-19 was 99% of billings. In FY 2019-20, the bureau under-collected external revenue at the Charges for Services object within the Water Fund by \$6.03 million or 97.4% of budget. In March 2020, the outstanding balance for accounts 30 days or more past due was \$3.0 million. By August 2020, the amount rose to \$5.8 million. The bureau is making efforts to increase its outreach to assist customers and provide flexible payment plans to reduce outstanding accounts. That said, the bureau anticipates less than one-hundred percent collection on delinquent accounts and expects to incur up to \$2 million more than planned in bad debts expense as a result of the permanent closure of some businesses and other customers inability to pay.
- To assist retail customers, the bureau worked with the Bureau of Environmental Services to develop Portland's Small Business Program for Utility Relief (SPUR), which awarded 500 businesses \$1.6 million in relief from utility bills. The Water Bureau contributed \$0.5 million with the Bureau of Environmental Services providing \$1.1 million. These programs were initiated in May and June, and the timing and expediency of this initiative prohibited it from being built into FY 2020-21 budget and forecast documents. Participation in the low-income discount program for residential customers increased 13%, or 961 additional accounts through September, after the bureau relaxed requirements around qualification documents. The bureau also ceased collection of late fees and shut-off of water service for non-payment from April to June, foregoing \$0.9 million in revenue but sustaining service levels for Portlanders in need.
- The bureau's approach to addressing the issue of reduced demand and customer inability to pay their bills is two-pronged. The bureau is making efforts to reduce expenses in the current year, but

to the extent that initiative falls short, Water may have to draw on its rate stabilization fund.

- Represented employees have also agreed to certain concessions, including cost of living adjustments and furlough days, with anticipated savings of \$1.6 million.
- The bureau is also holding vacancies in non-essential positions with anticipated savings of \$3.0 million and is reducing discretionary operating spending—including equipment and supply purchases, cancellation of non-essential travel, and pausing contracts for services—with expected savings yet to be determined. However, the bureau also incurred some one-time operating expense increases to accommodate modified working arrangements.
- Should the bureau be unable to address revenue shortfalls with these cost-reduction efforts, it would draw on its Rate Stabilization Account which has a current unaudited balance of \$75.5 million. To balance the forecast of the account, the bureau would offset any draws on the account with increases in future water rates. A draw on the Rate Stabilization Account may result in an FY 2021-22 water rate increase of 0.5% to 1.0% and marginal outyear increases of 0.1% to 0.2% above forecast through FY 2027-28 to replenish the account, depending on the amount drawn.

## ADDITIONAL ANALYSIS

### Carryover of Funds for Projects Yet Completed

In FY 2015-16 City Council passed resolution No. 37146 directing the Water Bureau to maintain, repair, and preserve the Mount Tabor Reservoirs following disconnection. Council committed \$4.0 million for the for work identified in the [2009 Mt. Tabor Reservoirs Historic Structures Report](#). To date, the General Fund has transferred the entirety of the \$4.0 million to the Water Fund. However, as part of FY 2020-21 Budget Adoption, Council directed the bureau to return \$500,000 in unspent project funds to the General Fund to be disbursed in \$250,000 installments over FY 2021-22 and FY 2022-23. To date, the bureau has expended \$3,101,154 on the project, and is reducing contingency to carryover \$148,846 and reallocating that amount to external materials and services to spend towards the project this year. Remaining work includes finishing the fencing, roof repairs, and historic light fixtures.

It should be noted that [Portland Measure 26-219](#) on the November Ballot, if passed, would “amend the City's charter to authorize the city council to spend monies from the Water Fund and increase rates to cover expenses for general public uses, such as neighborhood green areas and community gardens.” While not a dispositive statement allowing for water rate funds to be used for the Mount Tabor project, pending review by the City Attorney’s Office this measure might allow Council to direct the Water Bureau to budget the remaining costs using rate-payer funds, potentially creating \$500,000 in General Fund savings; the tradeoff is that this cost would increase retail water rates.

The bureau is also reducing contingency by \$2.91 million to finalize the purchase of its share of the Portland Building project.

## SUPPLEMENTAL BUDGET CHANGES TO ALL FUNDS

	Current Revised Budget	Bureau Requested Changes	CBO Recommended Changes	Total Recommended Revised Budget
<b>Resources</b>				
Budgeted Beginning Fund Balance	\$ 224,689,779			\$ 224,689,779
Charges for Services	\$ 214,237,828			\$ 214,237,828
Intergovernmental Revenues	\$ 526,000			\$ 526,000
Interagency Revenue	\$ 5,173,553	\$ 1,824		\$ 5,175,377
Fund Transfers - Revenue	\$ 301,132,123	\$ 1,415,248		\$ 302,547,371
Bond and Note	\$ 119,350,000			\$ 119,350,000
Miscellaneous	\$ 5,801,336			\$ 5,801,336
<b>Total Resources</b>	<b>\$870,910,619</b>	<b>\$1,417,072</b>	<b>\$0</b>	<b>\$872,327,691</b>
<b>Requirements</b>				
Personnel Services	\$ 85,066,613	\$ 53,586		\$ 85,120,199
External Materials and Services	\$ 51,463,999	\$ (2,066,118)		\$ 49,397,881
Internal Materials and Services	\$ 23,019,702	\$ 1,117,490		\$ 24,137,192
Capital Outlay	\$ 136,710,265	\$ (13,535,273)		\$ 123,174,992
Bond Expenses	\$ 71,163,018	\$ -		\$ 71,163,018
Debt Service Reserves	\$ 32,127,462	\$ -		\$ 32,127,462
Fund Transfers - Expense	\$ 307,647,224	\$ 1,422,248		\$ 309,069,472
Contingency	\$ 133,852,298	\$ 13,494,651		\$ 147,346,949
Unappropriated Fund Balance	\$ 29,860,038	\$ 930,488		\$ 30,790,526
<b>Total Requirements</b>	<b>\$870,910,619</b>	<b>\$1,417,072</b>	<b>\$0</b>	<b>\$872,327,691</b>