



Portland Water Bureau

Analysis by Robert Cheney

| | 2020-21 Revised Budget | 2020-21 Actuals | Remaining Budget | Percent Remaining |
|---------------------------------|------------------------|----------------------|----------------------|-------------------|
| Expenses | \$872,327,691 | \$273,381,338 | \$598,946,353 | 69% |
| Operating Expenses | \$117,955,264 | \$53,111,048 | \$64,844,216 | 55% |
| Personnel | \$62,976,551 | \$39,090,952 | \$23,885,599 | 38% |
| External Materials and Services | \$34,157,930 | \$17,279,981 | \$16,877,949 | 49% |
| Internal Materials and Services | \$17,912,741 | (\$3,259,885) | \$21,172,626 | 118% |
| Capital Outlay | \$2,908,042 | \$0 | \$2,908,042 | 100% |
| Capital Expenses | \$163,875,000 | \$70,389,451 | \$93,485,549 | 57% |
| Personnel | \$22,143,648 | \$12,326,802 | \$9,816,846 | 44% |
| External Materials and Services | \$15,239,951 | \$3,997,376 | \$11,242,576 | 74% |
| Internal Materials and Services | \$6,224,451 | \$18,191,993 | (\$11,967,542) | -192% |
| Capital Outlay | \$120,266,950 | \$35,873,280 | \$84,393,670 | 70% |
| Fund Level Expenses | \$590,497,427 | \$149,880,839 | \$440,616,588 | 75% |
| Contingency | \$147,346,949 | \$0 | \$147,346,949 | 100% |
| Debt Service | \$71,163,018 | \$24,753,943 | \$46,409,075 | 65% |
| Debt Service Reserves | \$32,127,462 | \$0 | \$32,127,462 | 100% |
| Ending Fund Balance | \$30,790,526 | \$0 | \$30,790,526 | 100% |
| Fund Transfers - Expense | \$309,069,472 | \$125,126,897 | \$183,942,575 | 60% |
| Revenue | \$872,327,691 | \$252,510,494 | \$619,817,197 | 71% |
| External Revenue | \$339,915,164 | \$128,040,977 | \$211,874,187 | 62% |
| Bond & Note Proceeds | \$119,350,000 | \$0 | \$119,350,000 | 100% |
| Charges for Services | \$214,237,828 | \$123,097,170 | \$91,140,658 | 43% |
| Intergovernmental | \$526,000 | \$1,035,071 | (\$509,071) | -97% |
| Miscellaneous | \$5,801,336 | \$3,908,736 | \$1,892,600 | 33% |
| Internal Revenue | \$532,184,051 | \$124,469,517 | \$407,714,534 | 77% |
| Beginning Fund Balance | \$224,689,779 | \$0 | \$224,689,779 | 100% |
| Fund Transfers - Revenue | \$302,318,895 | \$121,005,517 | \$181,313,378 | 60% |
| Interagency Revenue | \$5,175,377 | \$3,464,000 | \$1,711,377 | 33% |
| General Fund Allocation | \$228,476 | \$0 | \$228,476 | 100% |
| Fund Transfers - Revenue | \$228,476 | \$0 | \$228,476 | 100% |

Figure 1. This table includes all Water Bureau Funds, including the Water Fund; the Water Construction Fund; the Water Bond Sinking Fund; the Hydro Electric Power Operating and Renewal Replacement Funds, as well as a small portion of actuals in the Grants Fund. This table arrays capital and operating expenses based on project type as assigned in SAP and may display certain operating projects as capital expenses and vice versa.

INTRODUCTION

Two-thirds through the fiscal year, the Portland Water Bureau (PWB) has expended 69% of its total expenses across all funds—driven by the bureau’s concerted efforts to contain spending as a way to mitigate the loss of revenue. PWB has billed 65%¹ of its budgeted charges for services, which is driven by a significant reduction in retail water sales as a result of the COVID-19 pandemic. The bureau projects to end the year having billed 92% of budgeted charges for services, or \$16 million less than Adopted Budget totals.

¹ The bureau has booked an accrual reversal that makes charges for services appear \$17.9 million lower than they actually are in the above table. The accrual will be adjusted at year end.

KEY DECISIONS FOR COUNCIL

There are no key decisions for Council in PWB's Spring BMP submission. The bureau submitted two technical adjustments trueing up beginning fund balnaces to align with certified prior year ending fund balances, adjusting revenues and expenses for Division Transit Project grants, as well as reducing project budgets to better align with current year actual spending. CBO recommends these requests.

CURRENT YEAR BUDGET MONITORING

Total revenues and expenditures are forecasted by the bureau to be \$485.4 million, or 88% of the Revised Budget total of \$522.2 million.

Bureau Projections Show Conversative Outlook for Remainder of Fiscal Year

Water Rate Revenue Collection Flags as Impacts of COVID-19 Persist

PWB projects charges for services in the Water Operating Fund to end the year at \$194.7 million, or 92% of Revised Budget, which is consistent with the projections included in the FY 2021-22 Requested Budget submission. Additionally, the bureau anticipates only collecting 98% of those billings which is lower than the typical 99% rate the bureau has historically collected for water billings. The bureau's projections assume \$15.7 million of budgeted revenue will not be billed as a direct result of COVID-19. Demand declines in FY 2020-21 are driven mostly by reduced commercial accounts, which the bureau infers are pandemic related, as the economic slowdown and public health policy response led to reduced usage from restaurants, businesses and other high-volume clients. In addition to the water sales shortfall, the bureau anticipates an additional \$2 million of uncollectable water bills for FY 2020-21 as described in the most recent [Five-Year Financial Plan](#). These issues are discussed in the Water Bureau's [FY 2021-22 Requested Budget CBO analysis](#).

Active Management of Operating Expenses Required to Mitigate Impacts of Lost Revenue

To mitigate the loss of revenue, the bureau is taking active measures to reduce costs in the current year. Cost containment measures such as holding vacancies open to generate savings and reduced discretionary spending on materials and services purchases has reduced the bureau's draws on its Rate Stabilization Account to cover its fixed costs. The bureau estimates that \$8 million in one-time savings is generated by these efforts, with the balance of the year-end shortfall to be balanced by a cash transfer from the rate stabilization account at the the close of the year. CBO notes that, depending on the magnitude of the draw, transfers from the rate stabilization account can impact future rates as sustaining the account's balance is included in the water rate forecast.

Capital Project Budget Realignments Caused by Multiple Factors

Willamette River Crossing Geoprobe Exploration Determines Proposed Alignment Unfeasible

A geoprobe exploration conducted in August of 2020 showed that the proposed alignment for the pipeline was not possible. The bureau is investigateing different construction methods and alternative alignments, with construction now expected to start in FY 2021-22. The project is projected to be completed in FY 2022-23, and the total cost of the project is contingent on final pipeline alignment and construction methodology.

Bull Run Filtration Project Revised to Align with Expected Spending

PWB reduced the current year project budget of the Bull Run Filtration Plant by \$22.9 million to better reflect expected spending through FY 2022-23 and expected WIFIA cash flows in outyears. The Bull Run Filtration Project is currently forecasted as a \$595 million dollar project that will plan, design, and construct a new filtration facility that will remove the microorganism cryptosporidium from the water supply and must be finished by FY 2027-28 to comply with state and federal water quality rules. The project has expended \$37 million over the project's life and has a requested budget total of \$27.5 million for FY 2021-22.

| | 2020-21 Revised Budget | 2020-21 Spring Requested Adjustments | FY 2020-21 Project Revised Total |
|---|------------------------|--------------------------------------|----------------------------------|
| W02229 - Bull Run Filtration | \$43,693,000 | (\$22,900,000) | \$20,793,000 |
| Personnel | \$2,084,401 | \$0 | \$2,084,401 |
| External Materials and Services | \$2,893,201 | (\$1,900,000) | \$993,201 |
| Internal Materials and Services | \$15,398 | \$0 | \$15,398 |
| Capital Outlay | \$38,700,000 | (\$21,000,000) | \$17,700,000 |
| | | | 0 |
| W01590 - Willamette River Pipe Crossing | \$30,070,000 | (\$22,800,000) | \$7,270,000 |
| Personnel | \$412,259 | \$0 | \$412,259 |
| External Materials and Services | \$1,146,123 | (\$1,100,000) | \$46,123 |
| Internal Materials and Services | \$1,618 | \$0 | \$1,618 |
| Capital Outlay | \$28,510,000 | (\$21,700,000) | \$6,810,000 |

Figure 2. The largest changes to the bureau's Capital Improvement Plan in the FY 2020-21 Spring BMP are to the Bull Run Filtration Plant and the Willamette River Pipe Crossing.

A separate capital project, the Bull Run Pipelines, currently has a low-confidence estimated total cost of \$225 million, and will design and construct large-diameter, seismically resilient pipelines that will connect the Bull Run Filtration Plant to existing City conduits. The Bull Run Filtration and Pipeline projects in the bureau's budgeted CIP combine to total \$820 million with an accuracy range of -30% to +50%, demonstrating the uncertainty of the current budgeted totals for the lifecycle of these two projects. This project is discussed in more detail in the Water Bureau's FY 2021-22 Requested Budget CBO analysis.

SPRING SUPPLEMENTAL BUDGET CHANGES

| | 2020-21 Spring Revised Base (A) | Spring Decision Package Total (B) | CBO Recommended Adjustments (C) | Total Recommended Budget (A+B+C) |
|---------------------------------|---------------------------------------|---|---------------------------------------|--|
| Expense | \$872,327,691 | \$32,842,177 | \$0 | \$905,169,868 |
| Personnel | \$85,120,199 | \$200,000 | \$0 | \$85,320,199 |
| External Materials and Services | \$49,397,881 | (\$5,393,911) | \$0 | \$44,003,970 |
| Internal Materials and Services | \$24,137,192 | \$535,412 | \$0 | \$24,672,604 |
| Capital Outlay | \$123,174,992 | (\$39,900,000) | \$0 | \$83,274,992 |
| Debt Service | \$71,163,018 | \$0 | \$0 | \$71,163,018 |
| Debt Service Reserves | \$32,127,462 | \$0 | \$0 | \$32,127,462 |
| Ending Fund Balance | \$30,790,526 | \$2,680,035 | \$0 | \$33,470,561 |
| Fund Transfers - Expense | \$309,069,472 | \$2,510,000 | \$0 | \$311,579,472 |
| Contingency | \$147,346,949 | \$72,210,641 | \$0 | \$219,557,590 |
| Revenue | \$872,327,691 | \$32,842,177 | \$0 | \$905,169,868 |
| Beginning Fund Balance | \$224,689,779 | \$29,745,177 | \$0 | \$254,434,956 |
| Bond & Note Proceeds | \$119,350,000 | \$0 | \$0 | \$119,350,000 |
| Charges for Services | \$214,237,828 | \$0 | \$0 | \$214,237,828 |
| Fund Transfers - Revenue | \$302,547,371 | \$2,510,000 | \$0 | \$305,057,371 |
| Interagency Revenue | \$5,175,377 | \$0 | \$0 | \$5,175,377 |
| Intergovernmental | \$526,000 | \$587,000 | \$0 | \$1,113,000 |
| Miscellaneous | \$5,801,336 | \$0 | \$0 | \$5,801,336 |