



Bureau of Environmental Services

Analysis by Yung Ouyang

	2020-21 Revised Budget	2020-21 Actuals	Remaining Budget	Percent Remaining
Expenses	\$1,257,494,027	\$382,844,232	\$874,649,795	70%
Operating Expenses	\$199,582,966	\$88,744,160	\$110,838,806	56%
Personnel	\$69,063,677	\$44,661,367	\$24,402,310	35%
External Materials and Services	\$68,770,400	\$26,944,658	\$41,825,742	61%
Internal Materials and Services	\$43,646,344	\$17,139,618	\$26,506,726	61%
Capital Outlay	\$18,102,545	(\$1,482)	\$18,104,027	100%
Capital Expenses	\$170,544,532	\$75,035,702	\$95,508,830	56%
Personnel	\$20,085,209	\$10,104,773	\$9,980,436	50%
External Materials and Services	\$34,135,731	\$22,444,637	\$11,691,094	34%
Internal Materials and Services	\$9,646,104	\$12,092,793	(\$2,446,689)	-25%
Capital Outlay	\$106,677,488	\$30,393,499	\$76,283,989	72%
Fund Level Expenses	\$887,366,529	\$219,064,370	\$668,302,159	75%
Contingency	\$246,136,273	\$0	\$246,136,273	100%
Debt Service	\$172,676,781	\$77,222,672	\$95,454,109	55%
Debt Service Reserves	\$39,308,228	\$0	\$39,308,228	100%
Fund Transfers - Expense	\$429,245,247	\$141,841,698	\$287,403,549	67%
Revenue	\$1,257,494,027	\$622,876,663	\$634,617,364	50%
External Revenue	\$519,363,188	\$486,161,342	\$33,201,846	6%
Bond & Note Proceeds	\$145,000,000	\$270,002,270	(\$125,002,270)	-86%
Charges for Services	\$364,752,688	\$211,017,891	\$153,734,797	42%
Intergovernmental	\$987,000	\$1,111,534	(\$124,534)	-13%
Licenses & Permits	\$1,345,000	\$1,314,069	\$30,931	2%
Miscellaneous	\$7,278,500	\$2,715,579	\$4,562,921	63%
Internal Revenue	\$738,130,839	\$136,715,320	\$601,415,519	81%
Beginning Fund Balance	\$309,815,041	\$0	\$309,815,041	100%
Fund Transfers - Revenue	\$426,048,000	\$135,920,522	\$290,127,478	68%
Interagency Revenue	\$2,267,798	\$794,799	\$1,472,999	65%

Figure 1. This table shows the Bureau of Environmental Services' budget within five funds and BES's portion of the Grants Fund. Capital expenses in the table include procurement of capital equipment, i.e., vehicles, and not only CIP projects for BES infrastructure.

INTRODUCTION

Two-thirds through the fiscal year, the Bureau of Environmental Services (BES) has expended 45.0% of its non-fund level expenses, both operating and capital, in the Sewer System Operating Fund and has collected 93.6% of its external revenues budgeted in all of the bureau's funds. After adjusting for the impacts of the COVID-19 pandemic on the bureau's revenues during the FY 2020-21 budget development process, BES projects rate revenues to end the year on budget. In addition, after transferring \$8.3 million from the budget for capital outlay to external materials and services in the Sewer System Operating Fund, spending within all categories is expected to end the year within budget.

KEY DECISIONS FOR COUNCIL

There are no key decisions for Council in BES's Spring BMP submission. BES is requesting adjustments that are typical for the Spring BMP and do not impact rates or contingency resources. These requests are discussed in the "additional analysis" section below.

CURRENT YEAR BUDGET MONITORING

Total revenues and expenditures in the Sewer System Operating Fund are forecasted by the bureau to be \$610.7 million at year end, or 91% of the revised budget of \$670.9 million.

After Adjusting for Pandemic Impacts, Rate Revenues are Projected to be on Budget

BES projects charges for services in the Operating Fund to end the year at \$358.2 million, or 100% of the Revised Budget. Within this category are residential and commercial retail rate revenues projected at year-end to be \$338.5 million, or 100% of budget, based on a projection of existing revenues through February using historical daily billing trends and adjustments for the impacts of the COVID-19 pandemic. The next largest source within charges for services are Systems Development Charges (SDCs), projected to end the year at 88% of budget, or \$10.9 million. License and permits are projected to be \$1.8 million (136% of the Revised budget) as development permit revenues have not declined as much as estimated and have nearly reached budgeted amounts through February. Miscellaneous revenues are projected to be \$1.2 million, or only 29% of a \$4.4 million budget, due to a delay in the sale of Renewable Compressed Natural Gas resulting from equipment failure.

Charges for service revenues in the Environmental Remediation Fund are projected to be \$6.3 million, or 87% of budget. Within this category are Portland Harbor Superfund charges on the sewer bills which are projected to be \$5.7 million, or 85% of budget. Although the projection is \$1.1 million higher than last year's actuals due to a rate increase this year, the impact of the COVID-19 pandemic has offsetted slightly less than half of the increase.

Spending on Materials and Services is Projected to be Within Budget After Transferring \$8.4 million from Capital Outlay

External materials and services are projected to be \$95.1 million, which is 95% of the Revised budget of \$99.7 million. This BMP includes net additional appropriation of \$7.1 million in this category within the CIP, offset by reductions to capital outlay. Internal materials and services are projected to be \$45.6 million (88% of the Revised budget), with \$4.1 million of the \$6.3 million under-expenditure within the CIP. Within the operating program, various charges from PBOT for sewer and storm maintenance services are projected to be \$2.8 million, or 12%, under budget. After accounting for all of the bureau's projections for its revenues and expenditures in the Operating Fund, the fund's balance is expected to end the year at \$83.8 million, or 93% of the budgeted amount. This amount consists primarily of accumulated receivables and accruals totaling \$72.9 million.

Some Capital Projects Delayed to Accommodate Other Higher Priority Projects

CIP Program	2020-21 Revised Budget	2020-21 Actuals (AP 8)	Remaining Budget	Percent Remaining
Citywide Projects	1,115,000	-	1,115,000	100.0%
Collection System Pumping	11,015,000	5,279,973	5,735,027	52.1%
Non-process Property and Facilities	1,500,000	87,625	1,412,375	94.2%
Restoration and Remediation	10,824,000	5,389,685	5,434,315	50.2%
Sanitary and Combined Collection System	64,388,000	29,666,284	34,721,716	53.9%
Stormwater Management	21,645,532	2,653,503	18,992,029	87.7%
Support	5,250,000	3,735,849	1,514,151	28.8%
Wastewater Resource Recovery	54,803,000	16,195,361	38,607,639	70.4%
Total	170,540,532	63,008,280	107,532,252	63.1%

As of the end of February, BES had spent 37% of its Capital Improvement Plan (CIP) budget. BES projects spending on total CIP expenditures to be 77% of the Revised budget (\$130.0 million out of \$169.3 million) at year end, mostly due to delays in CIP projects resulting in lower than anticipated construction costs. The bureau’s Spring BMP actions are only reducing its CIP budget by \$4,000 in total, with \$8.4 million of capital outlay appropriation transferred mostly to external materials and services.. The largest percentage variance between the budgeted amounts and actual expenditures as of the end of February are in the following four programs: Citywide Projects, Non-process Properties and Facilities, Stormwater Management, and Wastewater Resource Recovery.

Several projects were delayed or put on hold to accommodate other more urgent / higher priority projects, including:

- Columbia Boulevard Wastewater Treatment Plant (CBWTP) Willamette Bldg & W. Columbia Acquisition (under budget by \$0.8 million)
- Capital Maintenance, Non-Process Facilities (under budget by \$0.3 million)
- Beech-Essex CP-J (under budget by \$5.0 million)
- Oak Basin A – Sandy Blvd. Trunk (under budget by \$1.1 million)
- Columbia Slough Outfalls (under budget by \$3.1 million)

The bureau’s largest, multi-year capital project, that of Secondary Treatment Expansion at the CBWTP, is projected to be under-budget by \$7.0 million due to postponement of construction resulting from delays in permitting and subcontractor progress. As a result of under-expenditures in the CIP, the transfer of funds from the Sewer System Construction Fund to the Operating Fund is expected to end the year at 76% of the Revised budget, reflecting CIP project reimbursement costs of \$125.8 million, CIP project overhead charges of \$12.7 million, and BES’s share of the Portland Building Renovation Project (\$12.4 million).

ADDITIONAL ANALYSIS

New Non-GF Requests

Grants Adjustments

- BES’ submission appropriates \$417,440 for grants which the bureau did not know the amounts of during FY 2020-21 budget development. The two largest grant awards are \$208,000 for the SW Corridor Light Rail Extension project and \$95,000 from the

Environmental Protection Agency (EPA) Brownfields program. The grants funds are freeing up resources that are being transferred to the Sewer Operating Fund's contingency.

- **CBO recommends these adjustments as requested.**

Fund Level Adjustments

- BES' submission also increases bond sales revenue in the Sewer System Construction Fund by \$122,775,548 to true-up the amount of bonds issued in November 2020. Of the amount, approximately \$900,000 will be allocated to the additional costs of issuance and the remaining \$121.9 million will be placed into the Construction Fund's contingency for future capital improvement projects. This action revises the amount borrowed from a single year to two years' of capital improvement program funding and is expected to save the bureau about \$250,000 in issuance costs and about \$18.5 million in debt service costs over the life of the bonds if bond rates rise 1% by next year.
- **CBO recommends these adjustments as requested.**

Technical Adjustments

Technical adjustments in BES' submission include the following:

- Transfer funds between different expenditure categories in the Sewer System Operating and Environmental Remediation Funds, with no net changes in those funds' budgets.
- An increase of \$615,000 to BES's commitment to the City's Community Opportunities and Enhancements Program (COEP) due to revised estimates of projected eligible construction contracts, for a revised total of \$1.12 million.
- An increase of \$3.8 million for insurance costs related to the bureau's Owner Controlled Insurance Program, since premiums have increased dramatically over the last 18 months as the insurance market reacted to increased losses and the uncertainty of the current economy.
- A decrease of \$4.4 million in the budget for the Secondary Treatment Expansion Program (STEP) as delays in permitting and subcontractor progress have postponed construction.
- **CBO recommends these adjustments as requested.**

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	\$1,257,494,027	\$123,192,988	\$0	\$1,380,687,015
Personnel	\$89,148,886	\$63	\$0	\$89,148,949
External Materials and Services	\$102,906,131	\$6,924,017	\$0	\$109,830,148
Internal Materials and Services	\$53,292,448	\$1,354,741	\$0	\$54,647,189
Capital Outlay	\$124,780,033	(\$8,278,821)	\$0	\$116,501,212
Debt Service	\$172,676,781	\$900,000	\$0	\$173,576,781
Debt Service Reserves	\$39,308,228	\$0	\$0	\$39,308,228
Fund Transfers - Expense	\$429,245,247	\$0	\$0	\$429,245,247
Contingency	\$246,136,273	\$122,292,988	\$0	\$368,429,261
Revenue	\$1,257,494,027	\$123,192,988	\$0	\$1,380,687,015
Beginning Fund Balance	\$309,815,041	\$0	\$0	\$309,815,041
Bond & Note Proceeds	\$145,000,000	\$122,775,548	\$0	\$267,775,548
Charges for Services	\$364,752,688	\$0	\$0	\$364,752,688
Fund Transfers - Revenue	\$426,048,000	\$0	\$0	\$426,048,000
Interagency Revenue	\$2,267,798	\$0	\$0	\$2,267,798
Intergovernmental	\$987,000	\$417,440	\$0	\$1,404,440
Licenses & Permits	\$1,345,000	\$0	\$0	\$1,345,000
Miscellaneous	\$7,278,500	\$0	\$0	\$7,278,500