

Budget Review 2025-26

Palatine Hill Water District



BUDGET HIGHLIGHTS

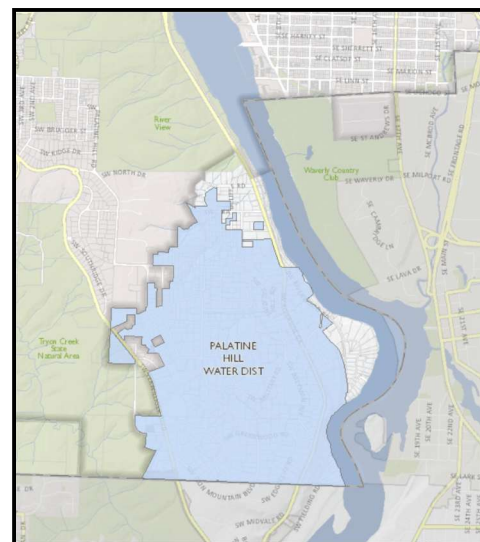
- The district's FY2025-26 budget is \$7.4 million, a 2% increase of \$164,809. This small increase is due to stable operating revenue and increase in customer water rates.
- Water rates were increased effective March 1, 2025, the first adjustment since 2020. The base charge rose from \$150 to \$180 for the first 10 CCF, with tiered usage rates increasing to \$6.60, \$7.80, and \$10.80 per CCF for higher usage levels. This 20% increase helps cover inflation, rising wholesale water costs, and supports long-term capital improvements.
 - Water service revenue is budgeted at \$1,466,000, a 4.7% increase from the prior year's \$1,400,000.
- Materials and Services costs are budgeted at \$525,000, up \$45,000 from last year, due to higher wholesale water costs, contracted services, and customer service improvements, including billing and communication system upgrades.
- The district continues to budget for the System Improvement Fund transfers from the General Fund. The transfer is \$600,000; \$100,000 less than FY25.
- Capital expenditures will increase by 6% from \$2.9 million to 3.075 million. Planned FY26 projects include \$2.2 million for major pipeline replacements, \$640,000 for meter and AMI (Advanced Metering Infrastructure) upgrades, \$110,000 for hydrant and system improvements, and \$75,000 for billing and communication enhancements.

INTRODUCTION & BACKGROUND

Palatine Hill Water District is located in Southwest Portland. It covers approximately five square miles and has about 600 customers. The district purchases water from the Portland Water Bureau.

Five board members are elected to four-year terms and serve without compensation.

Palatine Hill Water District certified its tax base authority in 1997-98 to determine a property tax rate under Ballot Measure 50. However, it has not certified a levy since then. District expenditures are primarily funded by water utility fees and charges.



Palatine Hill Water	2021-22	2022-23	2023-24	2024-25
Assessed Value in Millions	\$684.2	\$706.3	\$733.7	\$759.1
Real Market Value (M-5) in Millions	\$1,014.8	\$1,056.9	\$1,131.2	\$1,258.5
Property Tax Rate Extended: Operations	\$0.0000	\$0.0000	\$0.0000	\$0.0000

BUDGET OVERVIEW

Palatine Hill Water District's FY2025-26 budget totals \$7,436,142, a 2% increase over FY2024-25. The ending fund balance is budgeted at \$2.78 million, down \$318,399 from last year, reflecting continued capital investments. Capital spending is budgeted at \$3.075 million, slightly higher than last year's \$2.9 million, and includes major pipeline replacements, meter upgrades, and system improvements. These projects support the district's \$10.8 million, 10-year capital improvement plan.

To help fund these investments and rising water purchase costs, the district increased rates 20% effective March 1, 2025, raising the base charge to \$180 and usage rates to \$6.60, \$7.80, and \$10.80 per CCF.

RESOURCES

	2022 - 2023	2023 - 2024	2024 - 2025	2025 - 2026	%
RESOURCES:	Actual	Actual	Revised	Approved	Change
Beginning Fund Balance	3,593,200	4,468,328	4,996,261	5,195,959	4.0%
Fees and Charges	26,252	14,072	14,072	14,683	4.3%
Utilities	1,449,555	1,414,001	1,405,000	1,473,500	4.9%
Other Income	181,801	247,094	156,000	152,000	-2.6%
Transfers In	500,000	700,000	700,000	600,000	-14.3%
TOTAL RESOURCES	5,750,808	6,843,495	7,271,333	7,436,142	2.3%

Palatine Hill Water District's resources equal requirements in all funds and inter-fund transfers balance. The primary revenue is income from water utilities. The district also generates income from interest on investments, a cell tower lease, and miscellaneous proceeds. The district does not levy a permanent rate property tax, but can levy a general obligation bond if needed and approved by voters.

REQUIREMENTS

REQUIREMENTS BY OBJECT:	Actual	Actual	Revised	Approved	Change
Personnel Services	0	0	0	0	0.0%
Materials & Services	638,703	812,746	832,800	930,400	11.7%
Capital Outlay	143,777	181,517	2,898,000	3,075,000	6.1%
Fund Transfers	500,000	700,000	700,000	600,000	-14.3%
Contingencies	0	0	50,000	50,000	0.0%
Ending Fund Balance	4,468,328	5,149,232	2,790,533	2,780,742	-0.4%
TOTAL REQUIREMENTS BY OBJECT	5,750,808	6,843,495	7,271,333	7,436,142	2.3%

The district purchases water from the Portland Water Bureau (PWB). From fiscal year ending 2025 to 2029 the forecasted increase is approximately 137%. These dramatic increases are largely due to Portland Water Bureau's (PWB) plans to build a filtration plant and a seismically sound cross-river pipeline. These rates are projected and could change. A new contract with PWB will take effect in 2026 when the current contract expires. It is expected that future rate changes will not change substantially, but the terms of the new agreement are more mutually beneficial to all parties involved. The following table shows the anticipated rate changes through 2029:

Fiscal Year End	2025	2026	2027	2028	2029
Rate	2.286	2.412	3.430	4.696	5.413

To address increasing costs for water, water rates charged to customers were increased effective March 1, 2025, following a public hearing and Board approval in February 2025. This is the district's first rate increase since March 2020. The revised rate structure applies a 20% increase to both the base charge and usage tiers:

- The base charge increased from \$150 to \$180 for up to 10 CCF (hundred cubic feet) of water every two months.
- Usage rates increased as follows:
 - From \$5.50 to \$6.60 per CCF for usage over 10 CCF up to 50 CCF,
 - From \$6.50 to \$7.80 per CCF for usage between 50 CCF and 100 CCF,
 - From \$9.00 to \$10.80 per CCF for usage over 100 CCF

The chart below, which was presented during the district's rate change hearing, shows a comparison of water rate structures across local providers, showing Palatine Hill's current and new rates in a regional context:

Rate Breakdown	Water Provider											
	City of Portland (Retail)	City of Lake Oswego	West Slope WD	Tualatin Valley WD	City of Tigard	Palatine Hill WD (existing)	Palatine Hill WD (proposed)					
Fixed Charge*	\$137.18	\$62.34	\$71.88	\$82.72	\$150.82	\$150	\$180					
Volume Charge												
Tier 1	\$7.56	0-8 ccf \$3.27	\$7.61	0-28 ccf \$10.08	0-6 ccf \$3.80	10-50 ccf \$5.50	10-50 ccf \$6.60					
Tier 2		9-16 ccf \$4.71		> 28 ccf \$14.36	7-15 ccf \$5.54	50-100 ccf \$6.50	50-100 ccf \$7.80					
Tier 3		> 17 ccf \$8.48			> 15 ccf \$6.34	> 100 ccf \$9.00	> 100 ccf \$10.80					

The district has no personnel services costs. It contracts out daily operations to a management services provider at a cost of \$68,000, accounting services at \$67,200, and engineering services at \$90,000. All of these contract costs have increased compared to the prior year, with engineering services seeing the most significant rise from \$64,000 to \$90,000. This increase reflects the district's investment in engineering support for upcoming infrastructure projects.

Capital expenditures are budgeted at \$3.075 million in FY26, a small increase from \$2.9 million budgeted in FY25. Projects planned for FY26 include:

- Master Plan Piping Improvements on Military Road and Breyman Avenue, budgeted at \$2.2 million.
- Fire Hydrant Replacements and miscellaneous system upgrades totaling \$110,000.
- Meter Replacement and AMI (Advanced Metering Infrastructure) implementation at \$640,000, aimed at improving system efficiency and customer usage tracking.
- Electronic Billing System and Communication System Enhancements, budgeted at \$75,000, to improve customer engagement and operational responsiveness.

Materials & Services (all budgeted in the General Fund): are expected to increase in FY26. The cost of purchased water will increase from \$480,000 to \$525,000. Total Materials and Services costs are budgeted at \$930,400, showing an 11.7% increase over the prior year's \$832,800. This increase is due to the \$45,000 increase in wholesale water purchases from the Portland Water Bureau, additional costs for management, accounting, and engineering services and ongoing investments in customer service improvements, including electronic billing system upgrades and enhanced district communications.

GENERAL FUND - \$3,351,850

The General Fund makes up the majority of the district's budget, accounting for over 95% of total resources, primarily from water sales. The System Improvement Fund receives smaller revenues from interest earnings and system development fees. Total resources for the General Fund are budgeted at \$3,351,850 for FY26. Operational expenses total \$930,400, increasing by \$97,600 over FY25, due to rising water purchase costs and increased contract service expenses.

GENERAL FUND RESOURCES

Water service revenue is projected to increase by \$66,000 (4.7%), from \$1,400,000 in FY25 to \$1,466,000 in FY26, reflecting the March 2025 rate increase—the first since 2020. The increase raises the base charge to \$180 and adjusts usage rates to \$6.60, \$7.80, and \$10.80 per CCF, depending on usage levels. While rates have increased, water sales volume can still vary based on weather conditions.

GENERAL FUND REQUIREMENTS

The increase in Materials and Services, from \$832,800 to \$930,400, is primarily due to higher water purchase costs, budgeted to rise from \$480,000 to \$525,000. Additional increases include higher costs for management, accounting, and engineering services, as well as customer service system improvements. Materials and Services account for about 64% of budgeted operating revenue, leaving capacity for a \$600,000 transfer to the System Improvement Fund. This transfer supports the district's long-term \$10.8 million capital improvement plan, reducing reliance on borrowing or future rate spikes.

OTHER SIGNIFICANT BUDGET AREAS

SYSTEM IMPROVEMENT FUND - \$4,084,292

The **System Improvement Fund** is dedicated to funding the district's long-term capital projects, including replacing aging infrastructure, improving water system reliability, and supporting future service demands. This fund is primarily supported by annual transfers from the General Fund—budgeted at \$600,000 in FY26—along with interest earnings and system development fees.

The district's **Capital Improvement Plan** outlines an estimated \$10.8 million in system upgrades over the next decade, addressing projects such as pipeline replacements, fire protection improvements, meter upgrades, and technology enhancements. Many of these major improvements are strategically scheduled before the first significant anticipated rate increase from Portland in 2027. To fully fund this plan, the district projects needing to set aside an average of \$772,000 annually from operational revenues. The following is a list of the improvement projects they anticipate for FY26:

System Improvement Fund Projects

Locate and Raise Valve Boxes	\$ 50,000
Master Plan Piping Improvement P2 (Military Road, Esquiline to Aventine)	1,025,000
Piping Improvement - Condition and Age (Breyman Ave, Edgecliff to 12640 Riverside Dr)	1,175,000
Fire Hydrant Replacements	10,000
Miscellaneous Improvements and Upgrades	100,000
Meter Replacement/AMI Infrastructure	640,000
Electronic Billing System	25,000
District Communications	50,000
	<u>\$ 3,075,000</u>

DEBT STATUS

The district has no debt.

BUDGET PROCESS & COMPLIANCE

Yes	No	Compliance Issue
x		Did the district meet publication requirements?
x		Do resources equal requirements in every fund?
x		Are contingencies shown only in operating funds?
x		Did the budget committee approve the budget?
x		Does the audit show the district was in compliance with budget law?

LOCAL BUDGET LAW COMPLIANCE

The FY 2025-26 Budget is in substantial compliance with local budget law. Estimates were judged to be reasonable for the purpose shown.

As of the writing of this review, the FY 2023-2024 audit was not available.

CERTIFICATION LETTER RECOMMENDATIONS & OBJECTIONS

TSCC staff notes no deficiencies in the district's FY 2025-26 budget development process and recommends the certification letter contain no recommendations or objections.

Palatine Hill Water District

Budget Summary

	2022 - 2023	2023 - 2024	2024 - 2025	2025 - 2026	%
	Actual	Actual	Revised	Approved	Change
<u>SUMMARY OF ALL FUNDS</u>					
PROPERTY TAX BREAKDOWN:					
TOTAL PROPERTY TAX	0	0	0	0	0.0%
RESOURCES:					
Beginning Fund Balance	3,593,200	4,468,328	4,996,261	5,195,959	4.0%
Fees and Charges	26,252	14,072	14,072	14,683	4.3%
Utilities	1,449,555	1,414,001	1,405,000	1,473,500	4.9%
Other Income	181,801	247,094	156,000	152,000	-2.6%
Transfers In	500,000	700,000	700,000	600,000	-14.3%
TOTAL RESOURCES	5,750,808	6,843,495	7,271,333	7,436,142	2.3%
REQUIREMENTS BY OBJECT:					
Materials & Services	638,703	812,746	832,800	930,400	11.7%
Capital Outlay	143,777	181,517	2,898,000	3,075,000	6.1%
Fund Transfers	500,000	700,000	700,000	600,000	-14.3%
Contingencies	0	0	50,000	50,000	0.0%
Ending Fund Balance	4,468,328	5,149,232	2,790,533	2,780,742	-0.4%
TOTAL REQUIREMENTS BY OBJECT	5,750,808	6,843,495	7,271,333	7,436,142	2.3%
<u>SUMMARY OF BUDGET - BY FUND</u>					
General Fund	3,053,607	3,422,796	3,278,837	3,351,850	2.2%
System Improvement Fund	2,697,201	3,420,699	3,992,496	4,084,292	2.3%
GRAND TOTAL ALL FUNDS	5,750,808	6,843,495	7,271,333	7,436,142	2.3%
<u>DETAIL OF GENERAL FUND</u>					
RESOURCES:					
Beginning Fund Balance	1,515,596	1,914,904	1,801,837	1,806,350	0.3%
Utilities	1,449,555	1,414,001	1,405,000	1,473,500	4.9%
Other Income	88,456	93,891	72,000	72,000	0.0%
Transfers In	0	0	0	0	0.0%
TOTAL FUND RESOURCES	3,053,607	3,422,796	3,278,837	3,351,850	2.2%
REQUIREMENTS:					
Public Utilities Water System	638,703	812,746	832,800	930,400	11.7%
Transfers Out	500,000	700,000	700,000	600,000	-14.3%
Contingencies	0	0	50,000	50,000	0.0%
Ending Fund Balance	1,914,904	1,910,050	1,696,037	1,771,450	4.4%
TOTAL FUND REQUIREMENTS	3,053,607	3,422,796	3,278,837	3,351,850	2.2%