City Budget Office

Bureau of Revenue and Financial Services

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SUMMARY

Key Decisions for Council

- BRFS requests $265,498 in one-time General Fund resources to pay contracts with outside vendors encumbered in the prior year.
  - CBO generally recommends General Fund encumbrance carryover requests during the Fall Supplemental Budget that are one-time, discrete costs in which the bureau has a plan for acquiring goods or services on open purchase orders. Based on the information provided to CBO, the Revenue program's requested carryover of $85,518 for a contract with Compass Computing for programming services is ongoing in nature and part of the bureau's annual workplan. The division's FY 2020-21 annual appropriation should adequately cover future costs associated with this contract. The bureau had sufficient underspending in FY 2019-20 to carry over the remainder of the request, even after accounting for true-ups for furlough savings.
  - CBO recommends the requests for encumbrance carryover aside from this contract, totaling $179,980 in recommended carryover.
- BRFS's Procurement division requests additional General Fund resources for the Portland Bureau of Transportation ($173,345) and Portland Parks & Recreation ($99,132) to enable these bureaus to meet their obligations to provide funding equivalent to 1% of hard construction costs to the Community Opportunities and Enhancement (COEP) program. The request in this Fall BMP is for both a one-time allocation of General Fund resources for the current fiscal year and Current Appropriation Level (CAL) Target adjustments to add ongoing General Fund discretionary resources of the same amounts starting in FY 2021-22.
  - For the Fall Supplemental Budget, CBO typically recommends requests for additional resources for core City services that are urgent, unforeseen, and unable to be absorbed by existing resources. The program has not been fully functioning since Council passed the resolution directing its inception in November of 2017.[1] However, because the program has been so long in development, there has recently been a demand from various communities to have it fully implemented, as well as increased expectations from City Council. CBO also notes that the program, if implemented successfully, would advance the City's goals concerning equity in construction contracting, and the request meets the equity for BIPOC communities framework the Mayor established for the Fall BMP.

[1] https://efiles.portlandoregon.gov/Record/11399457

- While the need is not unforeseen from OMF's perspective, as the program has been in development for several years now, CBO recognizes that the obligations from PBOT and Parks have only been recently made known to those bureaus, and they may be challenged to quickly come up with the requested resources, especially given the impact of the COVID-19 pandemic on those bureaus' revenue streams. Therefore, CBO recommends that one-time allocations of additional General Fund resources be devoted to these bureaus' obligations for the current year. Going forward, because CBO believes that PBOT and Parks may be able to absorb these costs on an ongoing basis, it recommends that these bureaus be directed to plan for and incorporate the annual obligations for COEP as part of their base budget development rather than receive CAL target adjustments.

- It should also be noted that CBO's recommendations are conditional on Council passing the administrative rules as they currently stand. To the degree that there are substantive changes, these recommendations would need to be re-evaluated.

- See Additional Analysis section below for a discussion on the fee assessment methodologies, usage of funds, potential performance impacts, and other details.

- Although not a part of OMF's Fall BMP submittal, CBO recommends that Council direct the Revenue Division's CAL target for FY 2021-22 be adjusted due to several recent developments, including:

  - The ten-year IGA with Multnomah County for tax collection services requires an ongoing subsidization by the General Fund of the costs to provide the service.

  - Repayment by external partners to the General Fund of the cash contribution the City initially fronted for the recently implemented Integrated Tax System (ITS) is freeing up ongoing resources that the City had devoted to the system.

  - Additional changes to the ITS cost-sharing model, resulting from Metro joining the cost-sharing agreement, include reductions to ongoing debt service costs for both existing partners and the City and are expected to be finalized in the coming months.

  - If made, these CAL target adjustments should result in a net decrease in BRFS's CAL and a net increase in ongoing General Fund resources available for other uses. CBO will evaluate the net impact of these changes and adjust the Revenue Division's CAL accordingly as part of FY 2021-22 budget development. See Additional Analysis below.

Budget & Fiscal Monitoring: The COVID-19 pandemic substantially affected both BRFS revenues and expenditures in FY 2019-20.

- BRFS's budgets for personnel services and external materials and services in the General Fund were underspent by about $2.2 million (or 10%) and $1.8 million (almost 15%), respectively, due to measures adopted in response to the pandemic, including the external hiring and merit freezes, furlough implementation, reducing any non-essential EMS spending, and a hold on out-of-town travel. Including a true-up for furloughs, the bureau underspent its FY 2019-20 General Fund allocation by $2.1 million or 11.1%.

- The reductions in spending contributed to an under-collection of interagency revenues of about 13% as some division programs, such as Debt Management, Procurement Design and

Construction, and some fee-based Revenue Division programs, bill their IAs in an amount to fund operations. Licenses and Permits for the Revenue Division also came in lower than budgeted in the fourth quarter because of a timing issue due to COVID-19 related impacts.

- The pandemic also contributed to lower tax receipts in the Arts Education & Access Fund (75% of budget) and the Convention and Tourism Fund (84% of budget), which in turn, contributed to lower disbursements via external materials and services, which ended the year at about 83% of budgets.

ADDITIONAL ANALYSIS

COEP Requests

Two of BRFS's Fall BMP requests involve the COEP program, which is intended to provide funding to support low-income, disadvantaged, minority, and women workers in the construction trades and disadvantaged, minority-owned, women-owned, emerging small business enterprises (D/M/W/ESB) and State Certification Office for Business Inclusion and Diversity (COBID) certified firms.

The first request establishes IAs with partner bureaus to collect $2.0 million in funding set aside from the three projects slated for the program pilot: Portland Building Renovation Project, the Washington Park Reservoirs Improvement Project, and the Yamhill Garage Renovation Project. The funds in these IAs will support the intergovernmental agreement between OMF and Prosper Portland to administer a grant program for COEP.

The more significant request is for additional General Fund resources for PBOT ($173,345) and Parks ($99,132) to enable these bureaus to meet their obligations to provide funding equivalent to 1% of hard construction costs to the program. The request is paired with an ordinance, to be heard in October, enabling the implementation of the program in the current fiscal year with both the General Fund resources as well as rollout of the 1% charge to actual construction contracts.

The administrative rule for the COEP program will assess the 1% (of hard construction costs) fee using two methodologies:

1. A 1% charge based upon actual construction contracts executed, at the time they are executed, for one cohort of City bureaus primarily funded by rates and fees, either internal or external, including the Bureau of Environmental Services (BES), the Portland Water Bureau (PWB), and OMF-Facilities. The City Attorney's Office will maintain a COEP Activity Based Rate Expenditure Rubric that delineates how PWB and BES funds can be used on COEP program expenditures.
2. Assessments for a second cohort of City bureaus that are not primarily funded by ratepayers, i.e. PBOT and Parks, that would be funded by CAL Target increases for those bureaus. The requested General Fund increase amounts for PBOT ($173,345) and Parks ($99,132) are based on the average annual revenue a 1% fee would hypothetically have generated for the COEP program over six prior fiscal years on contracts whose values were $500,000 or over.[2] Future years' CAL allocations will be adjusted by the City Economist using whatever inflationary factors that are applied to other CAL targets, and will also be subject to Council-directed reductions like other CAL targets.

[2] For comparison purposes, 1% of the average amount for all contracts $500,000 or above over the same six fiscal years for BES and PWB are $459,821 and $432,115, respectively.

While CBO does not recommend increasing CAL targets, it is generally supportive of the methodologies OMF has developed to assess the fee amounts, including the predictability provided by the assessments for PBOT and Parks. CBO notes that the stable charges for these bureaus, while based on historical data, will necessarily deviate from future years' 1% of construction costs because they will only increase by inflationary factors. Given the overall desirability of an ongoing stable allocation to COEP for disbursal to various MWESB focused groups and technical assistance, CBO considers this approach to be a good one.

The Intergovernmental Agreement between OMF and Prosper Portland currently requires that the annual total of COEP fees, minus administrative costs, shall be expended using the following breakdown: 75% for Workforce Development and 25% for Business Technical Assistance. The Administrative Rules for the program provide examples of possible services that can be funded in each of these two categories.

OMF states that the long-term intention is that COEP investments will increase the number of minority- and woman-owned businesses and minority and women workers available to work on City construction projects. At this point, neither OMF nor Prosper Portland has explicitly quantified or projected how the City's performance measures related to equity in construction and contracting may improve as a result of this effort.[3] With an expanded local pool of minority and female workers and businesses in the construction trades and specialties needed for City projects, prime contractors will be better able to identify and employ these workers and firms, thereby improving subcontractor and workforce utilization performance measures. OMF has provided a list from Prosper of which organizations' proposals were funded by the pilot funds associated with one of the COEP related requests during this Fall Supplemental. There are ten organizations on the list, and grant amounts range from $50,000 (to the Urban League for business technical assistance) to $300,000 (to Oregon Tradeswomen, with subcontracts to three other organizations, for workforce development).

CAL Target Adjustments for the Revenue Division

Although not a part of OMF's Fall BMP submittal, CBO is highlighting the need to make adjustments to BRFS's CAL target, or allocation of ongoing General Fund discretionary resources, due to recent developments. If made, these adjustments should result in a net increase in ongoing General Fund resources available for other uses.

Multnomah County Tax Collection IGA

In July 2020, Council authorized an Intergovernmental Agreement with Multnomah County for the Revenue Division of BRFS to administer the Multnomah County Business Income Tax for ten years for an amount of $1,393,468 in the first year and adjusted annually for inflation. The new IGA is a ten-year extension and reflects a 2.9% increase over the County's current cost-sharing contribution.

City Council previously directed, via budget note, the Revenue Division to achieve cost recovery with the County based on the proportion of business income taxes received by the City and County. Under this methodology, the County's proportional payment would be closer to $2.5 million, based on a cost recovery expectation of 41% of the total $6.1 million cost of providing this service. However, the IGA that governed this arrangement previously and the ten-year extension just approved requires annual payment from the County of approximately $1.4 million. In line with previous years, the FY 2020-21 Adopted Budget includes one-time General Fund bridge funding for the County's portion of costs not covered in

[3] These measures in BRFS include: Percentage of all subcontract dollars awarded to Disadvantaged, Minority, Women, and Emerging Small Businesses subcontractors for construction and professional services contracts; Percentage of minority and women hours worked on City construction contracts; and the Number of prime contracts awarded to Minority, Women, and Emerging Small Businesses contractors.

the current IGA in the amount of $753,815. Thus, Council's approval of this IGA in July 2020 has signaled an end of negotiations on cost recovery to the County for at least ten years, and a conversion of the bridge funding to an ongoing allocation from the General Fund in order to maintain current revenue collection levels may now be sensible.

Integrated Tax System (ITS) Cost Sharing Model: Partners' Repayment for Cash Contribution and Addition of Metro

The initial cost sharing model for the Revenue Division's new Integrated Tax System (ITS) that recently went live had a $1.8 million annual payment attributed to the City of Portland, with cost pools including debt service, ongoing maintenance and support, and an upgrade set aside. As part of the project financing plan, the City paid $9.7 million of project costs from cash resources during FY 2019-20. The cost sharing plan includes proportional repayment of the $9.7 million from external partners, but as yet the City has not determined a mechanism by which to collect this repayment back to the General Fund, although the Revenue Division has a subfund in the General Reserve Fund for managing ongoing ITS expenses and receiving external revenues. The Revenue Division will retain external revenues for cash contribution repayment to fund ongoing ITS costs from this subfund. In order to capture the proportional repayment of the General Fund cash contribution, the $1.8 million CAL target that is already a part of the forecast, but actually going into effect in FY 2021-22, should be reduced by the annual repayment amount, which is currently estimated to be $837,253.

Additional changes to the cost-sharing model, resulting from Metro joining the cost-sharing agreement, are expected to be finalized in the coming months. Primarily, the addition of Metro will reduce ongoing debt service costs for existing partners and the City. The net impact of these changes should also be incorporated into the Revenue Division CAL adjustment.

On a related note, the $4.3 million debt service reserve in the Bancroft Bond fund, or a portion thereof, may be available to be reverted to the General Fund once final project costs are known. To the degree that the ITS project needs to utilize that reserve, it is expected that the cash contribution repayments from external partners would increase commensurately.

CBO will evaluate the net impact of these changes and adjust the Revenue Division's CAL accordingly as part of FY 2021-22 budget development. The net impact may be a reduction to BRFS's CAL (and a return to the General Fund) of about $200,000.

ITS Cost Sharing Risk

According to the IGA with Multnomah County, collections from the County that are above a "baseline," using an agreed-upon methodology, will be earmarked toward funding the County's portion of the costs of ITS. This cost-sharing agreement presents future risks to the General Fund, relative to a structure in which the County paid directly for its share of Integrated Tax System costs. Under the established agreement, the County will pay annually for its allocated share of ITS project costs *based on a proportion of the revenues collected on the ITS platform.* Certain collection categories outlined in the IGA form the $4.1 million baseline referenced in the IGA, with collections above that amount for those categories going to the City until the County's ITS costs are repaid over a ten-year horizon. The County's portion of ITS costs related to collection of the Business Income Tax are currently estimated to be $1,327,883 annually ($13,278,830 over 10 years), with amounts to be finalized by June 30, 2021.

If revenues in those specific collection categories do not come in sufficiently over the baseline, the County would not be paying their share of ITS costs. Because there are ongoing costs to maintain and operate ITS that are funded predicated on receiving $1.3 million annually from the County, the Revenue

Division may ask for General Fund resources in the first several years to fund its operating expenses if County collections are below the baseline. In later years, the division may have sufficient reserves from soft cost collection for an upgrade/system refresh set-aside that it can likely self-fund if lacking payment from the County. Thus, there is a certain amount of risk to the General Fund with the current arrangement, and the City will not know the full ramifications until after several years of actual tax collection. The Revenue Division is currently working on a technical addendum to the IGA with the County which will more fully describe the baseline and collection categories, but when this will be accomplished is unknown at this time. CBO notes that establishing that baseline appropriately and firmly is the key to actually collecting from the County without additional issues and recommends that the Revenue Division complete work on the addendum as soon as possible.

SUPPLEMENTAL BUDGET CHANGES TO ALL FUNDS

BRFS's budget is primarily in the General, Insurance & Claims, and Workers Compensation Funds, among others.

Note that while the one-time allocation of General Fund resources requested by the bureau for the COEP program for the current year has been recommended by CBO, the amount is reflected as Interagency Revenue in the CBO Recommended Changes column below because separate packages were created for PBOT and Parks, the two bureaus that will be receiving the allocation.

	Current Revised Budget	Bureau Requested Changes	CBO Recommended Changes	Total Recommended Revised Budget
Resources				
Licenses & Permits	$ 150,000	$ -	$ -	$ 150,000
Charges for Services	359,600	93,202	-	452,802
Intergovernmental	2,220,435	19,239,297	-	21,459,732
Interagency Revenue	8,964,411	2,057,043	272,477	11,293,931
Fund Transfers - Revenue	4,334,450	-	-	4,334,450
Bond & Note Proceeds	9,053,215	-	-	9,053,215
Miscellaneous	1,720,189	-	-	1,720,189
General Fund Discretionary	11,040,779	742,675	(357,995)	11,425,459
General Fund Overhead	5,379,202	-	-	5,379,202
Total Resources	**$43,222,281**	**$22,132,217**	**($85,518)**	**$65,268,980**
Requirements				
Personnel	$ 23,552,880	$ 5,034,049	$ -	$ 28,586,929
External Materials and Services	13,897,354	15,583,785	(85,518)	29,395,621
Internal Materials and Services	5,446,378	1,241,906	-	6,688,284
Debt Service	50,000	-	-	50,000
Fund Transfers - Expense	275,669	272,477	-	548,146
Total Requirements	**$43,222,281**	**$22,132,217**	**($85,518)**	**$65,268,980**