



September 9, 2019

To: Mayor Wheeler
Commissioner Eudaly
Commissioner Fish
Commissioner Fritz
Commissioner Hardesty

Cc: Jessica Kinard, Budget Office Director
Josh Harwood, City Economist

From: City Auditor Mary Hull Caballero

Re: Fall Budget Monitoring Report

Operating Budget Reconciliation

The Auditor's Office Fall Budget Monitoring Report shows that the Office is within the spending plan for Personnel Services and External Materials and Services for FY 2018-19. Internal Materials and Services budget appears to be overspent due to a technical billing error related to the Assessments, Finance, and Foreclosure's Local Improvement District Fund. The Revenue Division has submitted a correction as part of their prior year reconciliation, which significantly reduces expenses to the General Fund. As a result, Internal Materials and Services spending is within the spending plan.

One-Time Elections Coordinator Request

The Auditor's Office is requesting one-time General Fund contingency for a two-year, limited duration position (1.0 FTE) to help implement and administer new campaign finance regulations and develop program rules and procedures. The total requested is \$233,168, or \$116,584 per year, inclusive of salary, benefits, and materials and services. Measure 26-200, which addressed reforms to campaign finance in City Elections, was publicly initiated and passed with 87 percent approval in the 2018 General Election. The measure placed oversight and implementation mandates in the City Charter for the Auditor's Office.

This request is critical, unforeseen, and cannot be otherwise absorbed by Auditor's Office resources. The City engaged in a validation action with the Circuit Court to determine Constitutionality of the new regulations in January 2019. Portions were ruled valid in June 2019 and are effective for the 2020 elections cycle as of September 1, 2019. Additional capacity is required for careful administration, outreach, and investigatory duties to adhere to detailed requirements and timely response to the public, as well as to align administration with voters' intent in passing this measure. The Auditor's Office does not have additional reserves in its budget for this request, and the measure was passed without additional funding. Last year, the Auditor's Office spent 97 percent of its Personnel budget, with the remainder being reserved



for contingency, including cost of living increases. The Auditor's Office anticipates a busier than usual elections season given that there are three contested races, one of which involves an open seat, and public funds will be available through the Open and Accountable Elections program for the first time. This one-time request will see that administration is carried out as intended and help determine future needs.

Encumbrance Carryover Request

The Auditor's Office requests approval to carryover \$147,184 from FY 2018-19 to fund encumbered contracts. The purchase orders included in this request are all related to professional services that were either partially completed or planned for completion during FY 2018-19 with work that will continue in FY 2019-20. Included in this carryover request are contracts for ongoing implementation of a Hearings Office software project, Land Use Hearings Officer services, license maintenance for the City's electronic records software, and construction audit consulting.

Technical Adjustments

Included technical adjustments reflect interagency agreement transfers between the Office of Management and Finance and the Auditor's Office to reflect accurate expenses related to a facilities security project, as well as minor personnel changes in the Auditor's Office. Most of these adjustments consolidate previously budgeted funds for payment and completion of the security enhancement project on the first floor of the Auditor's Office in City Hall.

Decision Package Update

An FY 2018-19 Decision Package update report has been submitted to CBO for inclusion in their citywide reporting.

LID Fund, Assessments Collection Fund, and Bancroft Bond Interest & Sinking Fund

Reconciliation reports for the LID Fund, Assessments Collection Fund, and Bancroft Bond Interest & Sinking Fund are included in the attached reports. As of FY 2019-20 the Auditor's Office no longer administers these funds. All technical adjustments and other transfers for these funds are administered by the Bureau of Revenue and Financial Services (BRFS) in the Office of Management and Finance.

AU - Office of the City Auditor**DP Type****New GF Request****Request Name:** 9247 -2-Yr LTE Elections Coordinator**Package Description**

The Auditor's Office requests General Fund contingency for a limited duration, full-time equivalent coordinator position (\$116,584 per year, including materials and services) to assist with implementation, enforcement, and outreach for portions of the City's recently upheld campaign finance regulations. The regulations are provisions of a City Charter change measure initiated by the public and passed by voters in November's 2018 municipal election (measure 26-200). The measure proscribes specific requirements of campaign activities and those involved in elections communications, as well as the need for investigations, monitoring, and development of program procedures and rules. Funding for the two-year position would cover the busiest times of the elections cycle through November 2020.

The Auditor's Office believes this request meets the City's financial policies for mid-year one-time funding because it was unforeseen, is mandated in the City Charter, and cannot be funded within existing Auditor's Office resources.

- **Unforeseen:** sections of the new regulations were upheld by Multnomah County Circuit Court in June 2019 after the regular budget development process had completed for FY 2019-20. However, in January 2019 when Council created City Code for the Charter change and authorized the City Attorney to seek a legal review from the court, the Auditor's Office noted on the fiscal impact statement that there would be costs associated with implementation, including potential staffing costs (see Ordinance. No. 189348 Impact Statement for Council meeting date 1/16/2019).

- **Critical:** These provisions went into effect September 1, 2019, for what the Auditor's Office anticipates to be one of the City's busiest elections seasons on record with three contested races and the availability of public funds for campaigns that qualify. The measure passed with overwhelming support by Portlanders (87 percent) but attached no funding for the administration and careful monitoring it requires. If the request is not funded, the office could be out of compliance with required investigations, such as those that mandate a 5 business-day turnaround, and overall elections administration will be negatively impacted. Existing staff resources will also be diverted from other core elections functions, putting the City at risk for missing necessary elections deadlines, slower responsiveness to candidate filings, requests for assistance, and limiting timely access to public information.

- **Cannot be absorbed by available resources:** The Auditor's Office does not currently have the capacity to absorb this one-time request in existing resources. Personnel spending in FY 2018-19 was at 97 percent of budgeted amounts, with the remainder reflecting funds reserved for personnel contingency. External Materials and Services was underspent by only \$75,000 in FY 2018-19 after accounting for encumbrance carryovers and underspending in the Assessments Finance, and Foreclosure division, which reimburses the General Fund for administration.

Position duties:

The primary role of the coordinator position will be to assist with drafting procedures, rules, and providing education and advice to the public, as well as assisting with mandatory investigatory timelines. Jurisdictions with similar campaign communications disclosure regulations state that staff time is especially critical for timely response to numerous and simultaneous requests for compliance assistance, complaint follow up, and conducting investigations or reviews within the deadlines provided.

Background:

On November 6, 2018, voters amended the City of Portland Charter relating to campaign finance regulations. The measure qualified to the ballot by initiative petition (collecting signatures of qualified Portland voters) which was filed by a group of Portland residents. The Charter change impacts the election of City of Portland candidates (Mayor, Commissioners, Auditor) by requiring contribution and expenditure limits in campaigns as well as requiring: disclosures on certain campaign communications, additional registration of expenditures with the Secretary of State, and employers to provide certain payroll deductions for employee political contributions.

The City adopted Code language to implement the law in January of 2019 and asked the Multnomah County Circuit Court to validate the provisions as legal under the Oregon Constitution. The Court upheld certain sections and struck down those on campaign contribution and expenditure limits. As of September 9, 2019, the ruling is pending an appeal by the City of Portland.

Sections that were upheld by the court, include those on independent expenditure registration, employee political committee donations via payroll deduction, and timely, detailed candidate campaign disclosures in communications that include website, audio, video, and printed formats. Disclosures must contain primary and secondary funders of the communications, as well as business industry information related to funders' income.

Service Impacts

In addition to the risk of not having enough staff to meet required investigatory duties, the Auditor's Office expects overall negative impacts to elections administration and customer service. Thus far in FY 2019-20, the office has responded to 99 percent of all elections, lobbying, and political consultant program inquiries from members of the public and City officials within two business days. It is anticipated that number will drop to at least 80 percent should this request for additional staffing not be funded.

Equity Impacts

Without additional staff resources, the Auditor's Office is limited in its ability to share information about the new Charter requirements, respond to compliance questions, and investigate complaints. That reality puts individuals with limited resources at a disadvantage and tilts the electoral process in favor of campaigns with plenty of staff and volunteers to navigate the new rules. Timeliness of complaint investigations will be compromised, which could affect the outcome of the election and dampen public trust in the result.

CBO Analysis

	2019-20 FALL Requested Adj	2019-20 FALL CBO Adj	2019-20 FALL Recom Total
External Materials and Services	20,000	0	0
Personnel	213,168	0	0

	2019-20 FALL Requested Adj	2019-20 FALL CBO Adj	2019-20 FALL Recom Total
General Fund Discretionary	233,168	0	0

Position Detail						
Job Class - Name	FTE	Salary	Supplemental	Statutory	Benefit	Total
30003203 - Auditor - Coordinator I	1.00	68,900	0	5,271	32,413	106,584
Total	1.00	68,900	0		32,413	106,584

AU - Office of the City Auditor

DP Type

Technical Adjustments

Request Name: 9331 -Technical Adjustments

Package Description

Auditor's office technical adjustments consolidate previously budgeted funds for payment and completion of a security enhancement project on the first floor of the Auditor's Office in City Hall. One interagency increase with the Bureau of Transportation corrects a billing error in FY 2018-19 for revenue to be realized in FY 2019-20.

Service Impacts

Equity Impacts

CBO Analysis

	2019-20 FALL Requested Adj	2019-20 FALL CBO Adj	2019-20 FALL Recom Total
External Materials and Services	-112,915	0	0
Internal Materials and Services	130,000	0	0
Personnel	0	0	0

	2019-20 FALL Requested Adj	2019-20 FALL CBO Adj	2019-20 FALL Recom Total
Interagency Revenue	17,085	0	0

AU - Office of the City Auditor

DP Type

Encumbrance Carryover

Request Name: 9406 -Encumbrance Carryover Request

Package Description

The Auditor's office requests encumbrance carryovers totaling \$147,184 for existing purchase orders/contracts entered into in FY2018-19 that are continuing to FY2019-20. Encumbrance requests include, continuing implementation of the Hearings Office software project—\$74,747, graphic design services for the Auditor's Office—\$26,132, Land Use Hearings Officer services—\$25,181, City's electronic records software licensing—\$11,200, and Construction audit consulting—\$9,924. Details are in the submitted encumbrance carryover worksheet.

Service Impacts

Equity Impacts

CBO Analysis

	2019-20 FALL Requested Adj	2019-20 FALL CBO Adj	2019-20 FALL Recom Total
External Materials and Services	147,184	0	0

	2019-20 FALL Requested Adj	2019-20 FALL CBO Adj	2019-20 FALL Recom Total
General Fund Discretionary	147,184	0	0

Prior Year Fund Reconciliation Report

Office of the City Auditor

100 - General Fund

EXPENDITURES	2018-19 Revised Budget	2018-19 Actuals	Percent of Actuals to Revised
Personnel	7,365,502	7,116,439	96.62%
External Materials and Services	1,729,575	1,415,258	81.83%
Internal Materials and Services	2,035,673	2,895,283	142.23%
TOTAL EXPENDITURES	11,130,750	11,426,979	102.66%

REVENUES	2018-19 Revised Budget	2018-19 Actuals	Percent of Actuals to Revised
Charges for Services	97,733	99,330	101.63%
Miscellaneous	5,500	4,690	85.27%
General Fund Discretionary	6,375,757	0	0%
Interagency Revenue	184,019	143,144	77.79%
General Fund Overhead	4,467,741	0	0%
TOTAL REVENUES	11,130,750	247,164	2.22%

Expenditure Discussion

Auditor's Office expenditures were within the spending plan for Personal Services and External Materials and Services. Although total underspending appears to be \$314,317 for External Materials and Services, after taking into account the following factors, actual underspending in the General Fund for the Auditor's office was \$75,000:

- 1) Requested encumbrance carryovers (approximately \$147,184) will be used to fund projects previously budgeted and currently underway.
- 2) External Materials and Services underspending in the Assessments, Finance, and Foreclosure division, (\$91,000), contributes to the appearance of underspending in the Auditor's Office General Fund operating budget. This division and its expenses are financed through a bureau overhead structure and it is not a General Fund program. This variance contributes to the Auditor's operating budget to actuals differences.

Due to a cost recovery billing error, expenditures on Internal Materials and Services appear to be 42 percent above budgeted amounts (-\$859,610). In FY2018-19, \$726,012 was billed to the Assessments, Finance, and Foreclosure's Local Improvement District Fund for cost recovery to the General Fund. However, an error prevented the transactions from occurring, which caused the Auditor's Office to appear to be over budget in Internal Materials and Services spending, and conversely the Local Improvement District Fund to be equally under budget in Internal Materials and Services expenditures. The Revenue Division has submitted a billing correction as part of its prior year reconciliation, which reduces expenses to \$2,169,271, resulting in overspending of 7 percent above budgeted amount (-\$133,598).

Revenue Discussion

Prior Year Fund Reconciliation Report

Office of the City Auditor

Interagency revenues were below budgeted amounts in FY2018-19 with the Bureau of Transportation, but actual revenues were within the spending plan and a make-up billing of \$17,085 will be realized in FY 2019-20 for services covered within FY 2018-19. An increased interagency amount with the Bureau of Transportation is included in technical changes. The billings do not reflect a decrease in Hearings Office services.

Prior Year Fund Reconciliation Report

Office of the City Auditor

201 - Assessment Collection Fund

EXPENDITURES	2018-19 Revised Budget	2018-19 Actuals	Percent of Actuals to Revised
Contingency	82,100	0	0%
TOTAL EXPENDITURES	82,100	0	0.00%

REVENUES	2018-19 Revised Budget	2018-19 Actuals	Percent of Actuals to Revised
Miscellaneous	1,450	1,776	122.46%
Beginning Fund Balance	80,650	0	0%
TOTAL REVENUES	82,100	1,776	2.16%

Expenditure Discussion

Revenue Discussion

Miscellaneous revenues are higher than budget due to higher returns for Interest on investments than expected.

Prior Year Fund Reconciliation Report

Office of the City Auditor

311 - Bancroft Bond Interest and Sinking Fund

EXPENDITURES	2018-19 Revised Budget	2018-19 Actuals	Percent of Actuals to Revised
Debt Service	4,709,990	6,514,287	138.31%
Debt Service Reserves	15,822,083	0	0%
TOTAL EXPENDITURES	20,532,073	6,514,287	31.73%

REVENUES	2018-19 Revised Budget	2018-19 Actuals	Percent of Actuals to Revised
Bond & Note Proceeds	0	2,826	
Miscellaneous	5,672,362	9,271,971	163.46%
Beginning Fund Balance	14,859,711	0	0%
TOTAL REVENUES	20,532,073	9,274,797	45.17%

Expenditure Discussion

Debt Service expenditures are higher than budget due to higher debt retirement than expected.

Revenue Discussion

Miscellaneous revenue is more than budget due to higher than projected principal and interest payments on assessments that were included in the 2018 bond sale. This in turn increased the Debt Service amount done in June.

Prior Year Fund Reconciliation Report

Office of the City Auditor

401 - Local Improvement District Fund

EXPENDITURES	2018-19 Revised Budget	2018-19 Actuals	Percent of Actuals to Revised
External Materials and Services	10,000	1,401	14.01%
Internal Materials and Services	1,490,205	613,800	41.19%
Debt Service	6,219,422	5,379,066	86.49%
Contingency	3,388,541	0	0%
Fund Transfers - Expense	18,001,181	12,104,151	67.24%
TOTAL EXPENDITURES	29,109,349	18,098,419	62.17%

REVENUES	2018-19 Revised Budget	2018-19 Actuals	Percent of Actuals to Revised
Charges for Services	1,272,480	1,418,364	111.46%
Bond & Note Proceeds	23,353,836	16,685,996	71.45%
Miscellaneous	840,930	1,334,506	158.69%
Interagency Revenue	0	6,271	
Beginning Fund Balance	3,642,103	0	0%
TOTAL REVENUES	29,109,349	19,445,137	66.80%

Expenditure Discussion

External Materials and Services were lower than budget due to no rebate reporting needed during the year. Internal Materials and Services were lower than budget due to a technical error. An amount of \$726,012 was not reimbursed to the General Fund and will be remedied via cash transfer. Debt Service is slightly lower than budget due to less than expected line of credit repayment from the 2018 bond sale. Fund Transfers were slightly lower than budget due to less than expected reimbursements from the 2018 bond sale.

Revenue Discussion

Charges for Services were higher than budget due to higher than expected assessment and collection fees. Bonds and notes issued revenue is less than budgeted due to a lower than projected amount of assessment contracts outstanding at this time of the bond sale. Miscellaneous revenue is higher than budgeted due to a higher than expected assessment payments.