



# City Budget Bureau of Revenue and Financial Services Office

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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.<sup>1</sup> 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.

<sup>1</sup> <https://efiles.portlandoregon.gov/Record/11399457>



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.<sup>2</sup> 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.

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<sup>2</sup> 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 disbursement 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.<sup>3</sup> 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

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<sup>3</sup> 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.



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
<b>Resources</b>				
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
<b>Total Resources</b>	<b>\$43,222,281</b>	<b>\$22,132,217</b>	<b>(\$85,518)</b>	<b>\$65,268,980</b>
<b>Requirements</b>				
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
<b>Total Requirements</b>	<b>\$43,222,281</b>	<b>\$22,132,217</b>	<b>(\$85,518)</b>	<b>\$65,268,980</b>