

RESOLUTION No. 37214

Direct the Bureau of Revenue and Financial Services Revenue Division to report on options for a permanent resolution to the issue of the five percent cost limitation on administration of the Arts Education and Access Income Tax (Resolution)

WHEREAS, Portland City Code 5.73.090 (A) requires that collection and administration costs of the Arts Education and Access Income Tax (“Arts Tax”) cannot exceed 5% of gross collections over a five-year period. Hereafter this will be referred to as the “cost limitation.”

WHEREAS, the average cost of collection and administration for the first three tax years, tax years 2012, 2013 and 2014, is 7.5% (\$2.077 million in final expenses divided by \$27.520 million in revenues) as of March 31, 2016. As additional revenue from prior tax years is collected, the percentage is expected to continue to fall but not enough to reach five percent. The difference between the cost limitation and actual costs for the first three tax years is currently \$701,000. The ongoing difference between the cost limitation and actual costs is estimated at \$475,000. Both numbers are expected to fall as additional revenues are collected.

WHEREAS, over 95% of the Arts Tax budget is comprised of collection and customer service staff expenses (4.5 FTE), mailing and postage expenses for hundreds of thousands of collection letters and notices each year, and fixed expenses such as technology service charges, General Fund overhead and rent.

WHEREAS, reducing the Arts Tax budget to meet the cost limitation will result in significantly decreased collection activities, compliance and tax revenues which will in turn trigger a second round of budget reductions to meet an even lower cost limitation as a negative feedback loop is created. The lost revenue will result in a reduced disbursement to the Regional Arts and Culture Council because lost revenues are expected to exceed cost savings.

WHEREAS, a 2015 audit of the Arts Tax by the City Auditor found, in relevant part, Revenue Division’s “process and costs to collect the Arts Tax appear reasonable.”

WHEREAS, corrective action is needed to comply with the cost limitation and reducing the administration and collection budget is not a viable option. Other ways to address the cost limitation include one or more of the following options: 1) increase revenue using collection agencies to enforce the tax; 2) provide an ongoing General Fund subsidy as an offset to collection expenses, or; 3) pass a code amendment adjusting the cost limitation calculation or other requirements. Increased revenue is the most prudent way to begin addressing the cost limitation requirement and is consistent with taxpayer expectations that all taxpayers should pay the tax.

WHEREAS, collecting additional revenue will lower the average percentage cost of collection and administration and narrow the gap between the allowed cost limitation expense and actual expense.

WHEREAS, this resolution was reviewed by the Arts Education and Access Fund Citizen Oversight Committee (AOC), the independent citizen oversight committee charged with reviewing the expenditures, progress, and outcomes of the Arts Tax. The AOC supports this resolution.

NOW, THEREFORE, BE IT RESOLVED:

1. The Revenue Division is directed to maximize revenue collection using collection agencies which will narrow the difference between actual and allowable expenses under the cost limitation.
2. The Revenue Division is directed to provide City Council options for a permanent resolution to the issue of the cost limitation in time for consideration in the FY 2017-2018 Fall Budget Monitoring Process so that an adjustment can be made before the close of the fifth year of the tax.

Adopted by the Council: JUN 16 2016

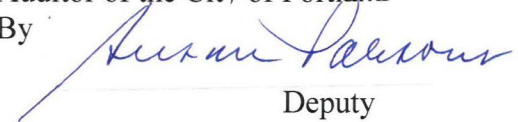
Mayor Charlie Hales

Prepared by: T. Lannom, S. Karter

Date Prepared: May 26, 2016

Mary Hull Caballero
Auditor of the City of Portland

By



Deputy

1878

Agenda No.
RESOLUTION NO. 37214

Title

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<p>INTRODUCED BY Commissioner/Auditor: Mayor Hales</p>	<p>CLERK USE: DATE FILED <u>JUN 07 2016</u></p>
<p>COMMISSIONER APPROVAL</p> <p>Mayor—Finance and Administration <i>[Signature]</i></p> <p>Position 1/Utilities - Fritz</p> <p>Position 2/Works - Fish</p> <p>Position 3/Affairs - Saltzman</p> <p>Position 4/Safety - Novick</p>	<p>Mary Hull Caballero Auditor of the City of Portland</p> <p>By: <i>[Signature]</i> Deputy</p>
<p>BUREAU APPROVAL</p> <p>Bureau: OMF/BRFS/Revenue CAO: Fred Miller CFO, Bureau Head: Kenneth L. Rust Division Head: Thomas W. Lannom</p> <p>Prepared by: Scott Karter Date Prepared: 5/26/2016</p>	<p>ACTION TAKEN:</p> <p><i>[Signature]</i></p>
<p>Impact Statement Completed <input checked="" type="checkbox"/> Amends Budget <input type="checkbox"/></p> <p>Portland Policy Document If "Yes" requires City Policy paragraph stated in document. Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <p>City Auditor Office Approval: required for Code Ordinances</p> <p>City Attorney Approval: required for contract, code, easement, franchise, charter, Comp Plan</p>	
<p>Council Meeting Date 6/16/2016</p>	

<p>AGENDA 3 of 3</p>
<p>TIME CERTAIN <input checked="" type="checkbox"/> Start time: 2:00 PM</p> <p>Total amount of time needed: one hour (for presentation, testimony and discussion)</p>
<p>CONSENT <input type="checkbox"/></p>
<p>REGULAR <input type="checkbox"/> Total amount of time needed: _____ (for presentation, testimony and discussion)</p>

FOUR-FIFTHS AGENDA	COMMISSIONERS VOTED AS FOLLOWS:	
	YEAS	NAYS
1. Fritz	✓	
2. Fish	✓	
3. Saltzman	✓	
4. Novick	_____	
Hales	✓	