



## **PORTLAND CHILDREN'S LEVY:**

Funds benefit children,  
but goals and structure should be clarified

February 2015

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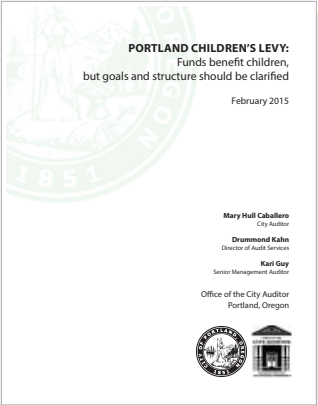
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# CITY OF PORTLAND

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February 24, 2015

To: Charlie Hales, Mayor  
Commissioner Nick Fish  
Commissioner Amanda Fritz  
Commissioner Steve Novick  
Commissioner Dan Saltzman  
Lisa Pellegrino, Director, Portland Children's Levy

From: Mary Hull Caballero, City Auditor

Subject: Audit Report – Portland Children's Levy: Funds benefit children, but goals and structure should be clarified (Report #468)

The attached report contains the results of our audit work on the Portland Children's Levy. The response letter from the Children's Levy Director and the Commissioner in Charge are included.

We ask the Portland Children's Levy to provide us with a status report in one year, through the Commissioner in Charge, detailing the steps taken to address our audit recommendations. We appreciate the cooperation we received from the Children's Levy staff.

Mary Hull Caballero  
City Auditor

Audit Team: Drummond Kahn  
Kari Guy  
Luis Sandoval

Attachment



## **CHILDREN'S LEVY:**

Funds benefit children, but goals and structure should be clarified

### **Summary**

Portland voters approved a property tax levy in 2002 to fund programs benefiting children. In our review of the Children's Levy, we found that the Levy has become more strategic in grant decisions over time, and has strong practices in place to ensure grantees are accountable for how they spend Levy funds. An annual, independent review also verifies that the Children's Levy remains below a five percent cap on administrative expenses, and verifies that Levy program staff follow appropriate financial practices. We also found, however, that the goals and structure Council originally established for the Levy have expired, and that the grant decision process can lack clarity. While neither of these issues indicate that Levy funds are not well spent, addressing them could help focus Children's Levy funds on the highest needs and ensure effective program operations.

### **Background**

Portland voters first approved a property tax levy of \$.4026 per thousand of assessed value for children's services in 2002, and renewed the Children's Levy (Levy) in 2008 and 2013. A house assessed at \$200,000 pays approximately \$80 per year in property taxes towards the Levy. The Levy is to be spent only for cost effective and proven programs for:

- Early childhood
- Child abuse prevention
- After school
- Mentoring
- Foster care (added in 2008)
- Childhood and family hunger (added in 2013)

The ballot language limits administrative expenses to five percent of the fund, and requires an annual audit. Children's Levy funds are granted to non-profit direct service providers through a competitive grant process. Children's Levy staff draft a contract for each grantee that specifies the services to be provided, and grantees submit progress reports twice per year to document the children served and outcomes achieved.

Annual property taxes and grant amounts have varied with the economy. Property taxes received by the Children's Levy rose to a high of \$13.6 million in FY 2009-10 prior to the recession. Similarly, funds paid to non-profits reached a high of \$14.3 million in FY 2010-11, before reductions were made due to declining revenues. During the most recent five year levy period, the Children's Levy granted over \$57 million to organizations that provide services to children.

Historically, social services such as children's programs have not been considered to be a City responsibility. As a result, unlike the City's Parks or Public Safety levies, there was no established City bureau or program to administer the funds when the Children's Levy was passed. The City worked with Multnomah County, which runs programs for children and families, to determine how to best administer the Levy. To avoid duplication of efforts, the City and County opted to share administrative responsibilities, and in 2003 an intergovernmental agreement was adopted by the City Council and County Board of Commissioners to define shared responsibility for allocating Children's Levy funds. The agreement created an Allocation Committee of five members:

- City Council member
- Board of County Commissioners member
- Represented of the Portland Business Alliance, appointed by the Alliance
- Citizen of Portland with knowledge of children's issues, appointed by the City Council;
- Citizen of Multnomah County or Portland with knowledge of children's issues, appointed by the Board of County Commissioners

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The Allocation Committee was required to select a Chair annually. The agreement specified goals of the Levy, and a process for selecting programs to fund. To ensure coordination with other children's programs administered by the County, the proposed grants were to be reviewed by the County Board of Commissioners prior to the City Council. City Council could then accept the entire funding plan, or return the plan to the Allocation Committee for further review. The agreement also specified that the Allocation Committee would be staffed by the Director of the Children's Investment Fund, a City employee, and required review of the processes defined in the agreement after two years of funding.

The intergovernmental agreement expired in 2008 and was not renewed. Some aspects of the agreement have continued in practice. The Allocation Committee continues to guide grant allocations, and follows bylaws specifying Committee composition and purpose. The requirement to select a Chair annually was changed to biennially, but in practice the Chair has been the City's Commissioner of Public Affairs since the Levy began. The County Board of Commissioners continued to approve grant allocations through 2012 before that practice was discontinued, and now final grant decisions are made by City Council based on Allocation Committee recommendations.

We conducted this audit to review the organizational structure and decision-making process for the Children's Levy, and assess whether the grant performance measurement system accurately portrays Levy outcomes.

## **Audit Results**

We found that the Children's Levy staff and Allocation Committee have implemented many strong administrative practices to ensure accountability for levy funds. However, we also noted some ongoing challenges in program structure and grant decision-making. These strengths and challenges are discussed below.

**Children's Levy  
becoming more  
strategic in grant  
decisions**

When the Levy was first approved, applicants could propose any type of activity within the four initial program areas of Early Childhood, Child Abuse Prevention, After School, and Mentoring. The Levy then funded many different types of activities, with different strategies and potential outcomes.

In the funding round completed in 2014, the Levy moved to a more strategic process. First, the Levy staff solicited extensive community input, with surveys, stakeholder group meetings, and open public meetings. They also prepared an overview of local demographic data to identify community needs. Based on this, the Allocation Committee adopted general goals for the Levy (Figure 1), and specific goals and strategies for each program area. For example, in the Child Abuse program area, the defined strategies were to invest up to 60 percent of funds on comprehensive parenting programs, and up to 40 percent in programs that address children's trauma through therapeutic interventions. Applications that did not address either strategy would not be considered.

**Figure 1 Allocation Committee goals**

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- Prepare children for school
- Support children's success inside and outside school
- Reduce racial and ethnic disparities in children's well-being and school success.

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Source: Portland Children's Levy documents

The overview of local demographic data that was presented to the Allocation Committee documented that poverty in Portland disproportionately affects children of color, and noted a significant achievement gap for children of color across multiple indicators of school success. One of the goals the Allocation Committee adopted was intended to address this: To reduce racial and ethnic disparities in children's well-being and school success. The proposals that supported this goal were scored higher in the most recent funding round.



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This strategic approach can allow the Levy to have greater impact with limited dollars, and to address the most pressing community needs. Ideally it also saves time for applicants, who would not propose programs that do not meet the core strategies.

**Regular monitoring ensures grantee accountability**

After a grant is approved by the Allocation Committee and City Council, Children’s Levy staff draft a contract with each grantee. The contracts describe services to be provided; the number of children to be served; and reporting requirements for participation and outcomes. The Levy requires reporting of performance in five areas:

- Service goals – the total number of children served
- Early exits – the number of children served that left the program before a minimum period
- Participation – the number of children that completed a specified program threshold
- Staff turnover
- Outcome goals

The Levy has contracted with outside experts to provide technical assistance to grantees in developing outcome measures and a methodology for tracking and reporting all performance measures. In addition, the Children’s Levy staff have conducted site visits to evaluate grantee data systems. We reviewed the overall process for grant monitoring, and reviewed monitoring files and reports from a selection of grantees. We found the reports to be detailed and thorough, and the data accurately presented in staff assessments of grantee performance.

Outcome goals are unique for each grantee, because each program is unique. For example, one Early Childhood grantee offers a preschool program, and measures improvement in children’s ability to identify letters and numbers. Another Early Childhood grantee provides home visits, and measures developmental milestones such as gross and fine motor skills. These grant-specific outcome measures provide useful information to the Children’s Levy staff and Allocation

Committee in evaluating individual grants, and making future funding decisions. Levy staff also periodically provide performance and progress reports to the Allocation Committee based on these grant-specific outcomes.

Because the measures are so specific, however, it is difficult to compare outcomes across grants, use the measures for an overall assessment of the Levy, or evaluate progress toward meeting the goals defined by the Allocation Committee. In addition, outcome data is not disaggregated by race or ethnicity, so the Levy cannot evaluate whether programs achieve the same outcomes for all children or contribute to meeting the stated goal of reducing disparities.

The Children's Levy Director told us that they are working to align performance measures across programs, which could allow the Levy to better compare programs and report overall results. The Director also noted that they are now requiring grantees to disaggregate participation data by race and ethnicity.

**Annual external compliance examination validates Levy financial practices**

The Levy language limits administration to five percent of the fund, and requires an annual audit. The administrative cap is calculated as 5 percent of the total revenue from the Levy over time. This means that the administrative costs may vary year-to-year, but must stay below the 5 percent cap for the life of the Levy. To verify this, the Children's Levy contracts with an independent accounting firm for a compliance examination each year. The accountants test for compliance with the administrative cap, test a sample of grants for compliance with grant terms, and review the Children's Levy's internal controls over budgeting, payments, and record keeping. In the initial years of the Levy, the accounting firm made recommendations for process improvements, but in recent years there have been no concerns identified.

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**City lacks Council-approved framework for Children's Levy**

A framework adopted by the City Council for the Children's Levy would do two things: specify the City's goals and desired outcomes for the Levy, and clarify roles and responsibilities. This is particularly important for Portland because the City does not typically manage children's services. The intergovernmental agreement approved by the City and Multnomah County provided the initial framework in 2003, with goals, criteria for selecting grants, and defined responsibilities for Children's Levy staff, the Allocation Committee, City Council, and County Board of Commissioners. That agreement expired in 2008.

**Council goals and reporting needed**

The goals and criteria specified in Council's intergovernmental agreement have been replaced by goals and strategies adopted by the Allocation Committee. As discussed above, in the absence of guidance from City Council, the Allocation Committee has been effective at developing goals and strategies to guide the funding decisions. But without long-term goals adopted by Council, it may be difficult to ensure funds address the highest priority community needs, or to document the Levy outcomes over time.

When the Children's Levy staff sought community input in 2013, one issue raised was the need to align outcomes with relevant community benchmarks. For example, the City separately provides funding to an organization, All Hands Raised, which acts as a convener of Multnomah County organizations focused on children. All Hands Raised has developed a set of indicators to focus the community's work on measurable results. These indicators include outcome measures such as kindergarten readiness, school attendance, and academic reading and math scores.

The Children's Levy Director told us they consulted with All Hands Raised as they developed Levy goals to ensure goals were aligned with other community efforts. However, the Director also noted that it is difficult to use the All Hands Raised indicators, because the Levy is not able to track children over time and does not have access to school data except in limited circumstances. Other funders have similar challenges, and are working to develop methods to measure program contributions towards meeting these community outcomes. In a draft investment report, Levy staff noted that they plan to discuss how program outcomes can align with outcomes tracked for other

fundors of similar services, so as to better understand the collective impact of Levy investments. Council approved goals, together with periodic reporting on outcomes achieved, would provide important information to Council and the public on the impact of Children's Levy investments.

**Clear roles and responsibilities would provide certainty for staff, the Allocation Committee and the public**

Since the intergovernmental agreement with Multnomah County expired in 2008, much of the decision-making for the Children's Levy has shifted from the City Council to the Allocation Committee and the Commissioner of Public Affairs. While the County has representation on the Allocation Committee, the County Board no longer has a formal role in approving grants to ensure coordination with other County programs.

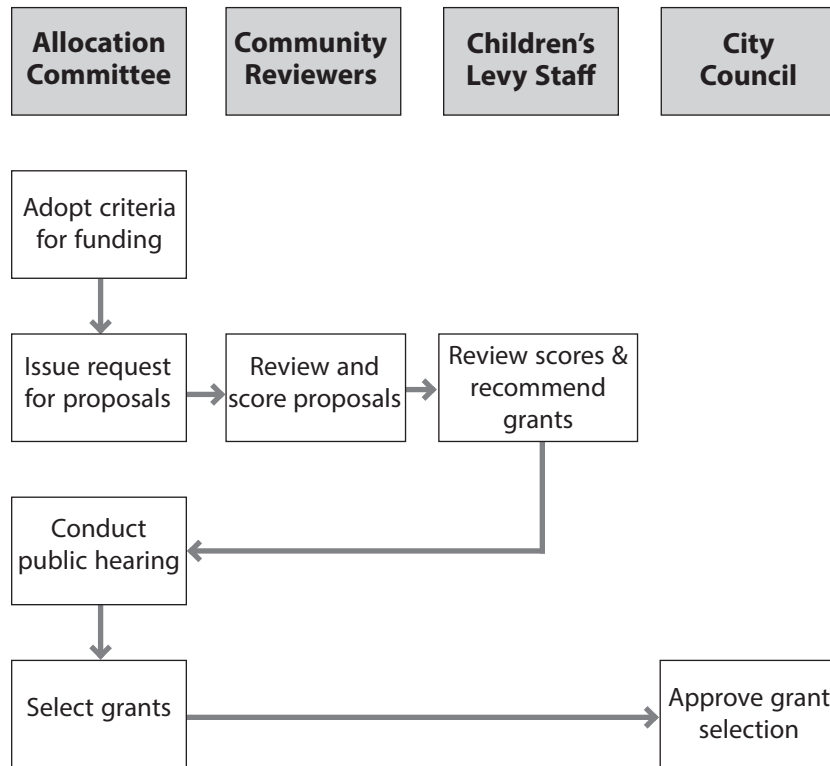
The Levy is not staffed by a City bureau, but is in the Office of the Commissioner of Public Affairs. There are 3.7 full time equivalent positions funded in the Commissioner's Office budget, and dedicated solely to Children's Levy activities. Levy staff supports the Commissioner, who also serves on the Allocation Committee. Contrary to the bylaws established by the Allocation Committee, there is no vote for a chair, but the role has been filled consistently by the Commissioner of Public Affairs. Information on the Children's Levy could be hard for a resident to find – it is not listed as a bureau on the City's web page, and resident must know to look to the Commissioner's web page to find a link. Under the City's Commission form of government, commissioner assignments may change at the Mayor's discretion. It is not clear whether the existing staff would follow a change in assignments. There is a risk of the loss of staff expertise and institutional knowledge if the City does not have a defined structure for administering the Levy.

Other local government levies we reviewed had defined tasks for the allocation and oversight committees, such as preparing a community needs assessment, developing an investment plan, monitoring outcomes, and providing annual evaluation reports. All other local government levies also had larger oversight committees with more diverse representation. Clarifying the role of staff, the Allocation Committee, and Council in Children's Levy administration would ensure continuity in times of transition and continued effective administration of the Levy.

**Process for allocating grants lacks clarity for applicants**

The grant allocation process has characteristics of two typical government systems: it starts as a procurement-type process with a request for proposals and scoring, then ends as a budget-type process, with decisions made by the Allocation Committee in an open public hearing. The grant allocation process is shown in Figure 2.

**Figure 2 Grant allocation process**



Source: Portland Children's Levy documents

In most cases, the final decisions by the Allocation Committee to fund a program are consistent with staff recommendation and the scores of community reviewers. But in some cases, the Allocation Committee may opt to fund a program that was not scored highly by community reviewers, or not recommended by staff. The Chair of the Allocation Committee noted that this is how the process is intended to work – the Allocation Committee members use their experience and judgment to make final decisions they believe are best for the community, as in any budget process. But many community members we interviewed noted that the Children's Levy grant decision

process seemed unpredictable. When reviewers or applicants see decisions that seem to be disconnected from proposal scoring, they may lose interest in participating in the process, and may question the credibility of decisions or the value of the written application. Some grantees told us that they were not sure when or how to lobby the Allocation Committee to support their written proposals.

**Unclear whether decision process supports goal of achieving equitable outcomes**

Over the period of the last five-year levy, over 64 percent of children served by Levy-funded programs were children of color. When Levy staff sought input on funding priorities from the community, one theme was how best to prioritize funds to serve children of color effectively. As discussed above, performance data on outcomes for Levy-funded programs is not disaggregated by race or ethnicity. Instead, the Levy Director told us they try to approximate an equity analysis by looking at the race and ethnicity of children served by a grantee, and the overall outcomes achieved by that grantee.

The Coalition of Communities of Color is a nonprofit organization with members that include Children's Levy grant recipients. They advocate that culturally specific organizations will achieve better outcomes for children of color, because children feel like insiders in those organizations and interventions are culturally relevant. The Coalition developed a definition for culturally specific organizations.

In the 2014 round of funding decisions, the Allocation Committee increased the points given to applicants that could demonstrate that their programs or organizations were culturally responsive. The Levy also set a goal of allocating 30 percent of funds to culturally specific services, and developed their own definition for culturally specific programs and/or organizations. That definition, and the sometimes interchangeable use of the terms "organizations," "programs," and "services," were confusing to both reviewers and applicants. Some applicants told us the definition and approach discounted the benefits of culturally specific organizations, which have staff, boards, and leadership that reflect the communities they serve. Levy staff noted that reviewers did not know how to apply the "culturally specific program and/or organization" definition when scoring applications.

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A draft report on the 2014 funding process from Children's Levy staff notes that the Levy did not articulate at the beginning of the process whether it was seeking to increase investments in culturally specific organizations, services, or both. Clarifying this, and clarifying the definitions used to describe culturally specific organizations, would help the Allocation Committee prioritize funding towards grantees that can best achieve the goal of reducing racial and ethnic disparities.

### **Comparison jurisdictions may offer positive practices**

We reviewed other local government grant programs for children's services to determine whether there is a common approach to decision making or addressing issues of equitable outcomes that might be suitable for Portland. We found that every city uses a different process, and every process may have strengths and weaknesses. However, there were some features of other programs that could benefit the Children's Levy:

- A larger and more representative allocation committee. All organizations we reviewed had larger advisory committees, with representatives from interested groups such as school districts and service providers. Broader representation could provide a wider range of perspectives to Committee decision making.
- An interview process to clarify application details as needed. Some organizations have a step in the process to allow reviewers to meet with applicants to resolve questions. This may lessen the reliance on the written application or the need to lobby Allocation Committee members.
- An appeals process for rejected applications. An appeals process could provide a means for applicants who do not believe they were treated fairly to challenge the decision.

The Children's Levy Director told us they have been collecting input on the most recent funding round, and will meet with the Allocation Committee in early 2015 to discuss potential process improvements. A decision process that incorporates more viewpoints and provides more opportunities for discussion with grantees could improve the clarity of decisions.

## **Recommendations**

We noted many strengths in current operations of the Children's Levy that provide accountability for Levy funds. The Levy currently provides about \$10 million per year in grants to children's programs throughout the City, with demonstrated positive outcomes for children. To strengthen the focus of Children's Levy funds, provide clarity for applicants, and ensure that the current strong administration continues, we recommend that the Commissioner assigned the Children's Levy:

- 1. Develop a framework for the Children's Levy for adoption by Council to include the following:**
  - Goals and desired outcomes for the Levy
  - Allocation committee membership and role
  - Staff role
  - Required outcome reporting
  
- 2. Direct the Children's Levy and the Allocation Committee to review the grant allocation process to ensure decisions are fair and transparent.** In particular, revisit the scoring process, goals, and definitions related to equity to ensure funded programs serve all children effectively.



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**Objectives, scope and methodology**

The objectives of this audit were to review the organizational structure and decision-making process for the Portland Children's Levy, and to assess whether the grant performance measurement system accurately portrays Levy outcomes.

To obtain background on the Levy, we reviewed ordinances, ballot measures, intergovernmental agreements, and Allocation Committee meeting notes and materials. We interviewed Levy staff and Director. We also interviewed Levy partners such as Allocation Committee members, grant recipients, and community organizations with a focus on children's services. We researched best practices for grant administration from the Government Finance Officers Association and other nonprofit organizations, and reviewed local and federal audits of grant programs.

We reviewed the annual, independent compliance examinations of the Levy since its inception, and scoped areas covered by this review out of our audit work.

We compared Portland's Children's Levy to five other local government levies: Seattle, WA; Oakland, CA; San Francisco, CA; Jacksonville, FL; and Broward County, FL. We focused our review on the grant allocation process and performance reporting in these jurisdictions, and followed up with interviews as needed.

We reviewed the Children's Levy system for monitoring grantees, and examined the grant monitoring documentation for a selection of grants.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



# RESPONSE TO THE AUDIT





portland  
children's  
levy

Commissioner Dan Saltzman

February 12, 2015

Mary Hull Caballero  
City Auditor  
1221 SW 4th Avenue  
Room 140  
Portland, OR 97204

Dear Auditor Hull Caballero:

Thank you very much for your recent review of the Portland Children's Levy. We are pleased that you determined the levy has strong practices in place to ensure that grantees are accountable for spending levy funds, confirmed that the Levy is operating below its five percent administrative expense cap and that the Levy staff follow appropriate financial practices.

We agree with the recommendations of the audit. We have already begun to address the second recommendation. The Levy Allocation Committee spent the majority of its most recent meeting on February 11, 2015 considering feedback on the 2014 funding round, and is in the process of creating recommendations for change to future funding processes. The Allocation Committee plans to seek public input on its draft recommendations prior to final approval.

We support the City Auditor Office's work and appreciate your willingness to better understand the Portland Children's Levy. Thank you for this audit.

Sincerely,

Dan Saltzman  
Commissioner of Public Affairs

Lisa Pellegrino  
Director







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*Portland Children's Levy: Funds benefit children, but goals and structure should be clarified*

Report #468, February 2015

Audit Team: Kari Guy, Luis Sandoval

Mary Hull Caballero, City Auditor  
Drummond Kahn, Director of Audit Services

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*City Budget Process: Timing, roles, and decision-making need improvement (#455, February 2015)*

*Portland Streetcar: City transit targets unmet, better performance management needed (#451B, December 2014)*

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