Audit Update: Council's legislative changes helped the Portland Clean Energy Fund put management systems in place

News Article

This is a one-year follow-up to our 2022 report Portland Clean Energy Fund: Additional steps needed to implement voter-approved program.

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In our 2022 report, we found the Portland Clean Energy Fund began putting management systems in place, but other elements were not yet implemented or needed direction from City Council. The Fund needed to better manage the administrative cost limit because of unpredictable revenues; seek guidance from Council on climate goals, capacity building, and expectations for oversight; and set timelines and publicly present plans to Council for completing accountability systems.

After our audit, the Commissioner-in-charge, the Planning and Sustainability Director, as well as the Fund Committee and staff sought direction from Council to address our recommendations. In October 2022, Council adopted a variety of legislative amendments. Those changes helped the Fund implement recommendations we made to better manage the administrative cost limit. Those amendments also provided the needed guidance on climate goals, capacity building, and oversight. Lastly, the Fund made steady progress implementing the accountability systems we identified in our original audit.

Council also made policy decisions that expanded the scope of the Fund. Council added new funding categories, approved additional funding pathways, and expanded the types of organizations that qualify for funds.

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Prosper Portland as well as City bureaus like Housing, Parks and Recreation, and Transportation will be responsible for the administration of some of the Fund's strategic programs.

This report focuses on the Fund's progress implementing our 2022 audit recommendations. We did not audit these more recent policy decisions and structural changes, or the new management practices that will result.

Recommendations implemented

New administrative cost definition, calculation, and higher limit

We recommended the Fund clarify and communicate to Council which expenses are included as administrative costs subject to the cap. As part of the legislative changes from October 2022, Council adopted a definition for administrative costs. In addition, Council changed the calculation to address unpredictable revenues, and raised the administrative cost limit from 5 to 12 percent of tax revenues to allow for adequate staffing. These changes apply starting this fiscal year ending in June 2023.

We reviewed the five-year forecast the Fund is using to manage the administrative costs within the 12 percent limit. Records were consistent with the changed calculation for revenues. The Fund has contracted with an outside firm to complete its first financial audit which covers the fiscal year ending June 2022, a period that predates these recent changes. Going forward, the annual financial audits will be an opportunity for an independent evaluation of compliance with new administrative cost requirements, and to further refine cost categorization based on actual spending.

Better revenue reporting now available to support Fund management

We recommended that the Fund continue to work with the City's Revenue Division to obtain timely revenue reports for improved budgeting and administrative cost management. Our original audit described the difficulty with predicting how much revenue the tax would generate because it was new and implemented while COVID-19 was impacting the economy. Staff now meet quarterly to review revenue reports together and discuss implications for the Fund. The timing of when revenue is collected and when it is available to the program is also delayed because the Revenue Division must reconcile receipts from actual taxes owed based on filed returns to prepayments made based on estimated taxes owed. The Revenue Division has since reconciled more years of tax receipts and that has provided a better projection of the Fund's earned revenues than during the period covered by our audit.

Recommendations in process

Committee plans to recommend a five-year investment plan that will align the Fund with the City's climate action goals

We recommended the Fund propose a plan to Council for how to proceed with the legislation's climate initiatives given that the City's Climate Action Plan, the guiding document for reducing local carbon emissions, had expired. As part of the legislative changes adopted in October 2022, Council removed references to the expired Climate Action Plan and introduced the use of a Climate Investment Plan to set the Fund's funding priorities and allocations every five years.

The Fund plans to invest $750 million over the next five years. The Fund's Committee and staff are currently working on the inaugural Investment Plan. The Committee is slated to recommend its first Investment Plan to Council in July 2023, and Council's deliberation and approval is anticipated by September 2023. The most recent draft plan is currently available for public comment. That draft describes how proposed investments are directly or indirectly supporting actions in the City's Climate Emergency Workplan that Council adopted in August 2022 to replace the expired Climate Action Plan.

Proposed investment plan will further define capacity building

The original legislation allowed the Fund to consider capacity building in funding decisions but did not elaborate on how it should be implemented. As a result, we recommended the Fund propose guidelines to Council for the purpose, qualifying activities, and desired outcomes of capacity building spending. As part of the legislative changes adopted in October 2022, organizational capacity building is now treated as a distinct funding category.

The inaugural Investment Plan will further clarify desired outcomes and measures for all funding categories. Based on the most recent draft plan, the purpose of capacity building investments is to support nonprofit organizations to make a greater impact on addressing climate change. Qualifying activities will support community-based nonprofit organizations through the existing Mini-Grant Program launched in 2021 as well as a new strategic program that provides a multi-year cohort of those organizations with training, technical assistance, and other resources.

Committee working on investment plan and evaluation responsibilities

We recommended the Portland Clean Energy Fund evaluate oversight responsibilities and, if needed, seek input and propose legislative changes to Council. We found that, unlike other voter-approved programs, the Fund's original legislation did not specify an oversight body and assigned the Committee with more responsibilities as well as a different relationship to Council and staff than similar City advisory bodies. The Fund Committee's responsibilities changed considerably with the October 2022 legislative changes. The Committee no longer makes funding recommendations to Council. Instead, staff are responsible for managing the selection of grants and contracts in accordance with existing City rules and best practices.

With the Fund's alignment to the City's current climate goals, the Committee has a new responsibility to recommend the Investment Plan to Council in addition to its existing responsibility to evaluate the Fund's effectiveness. Staff explained that, with these changes, the Committee is now focused on developing high-level goals and outcomes and evaluating progress. The Committee will revise its bylaws and working agreements to reflect its responsibilities. The Committee is slated to recommend its first Investment Plan to Council in July 2023. The Committee has already approved a set of high-level performance measures that it will use to begin evaluating the Fund's effectiveness.

Major milestones for accountability systems to be met in the next year

We recommended the Fund set timeframes and publicly present plans to Council for accountability systems that were not completed at the time of our audit. We focused on these three areas from the Fund's original legislation:

- **Reporting on allocations by funding category**. With Council's legislative changes, the Fund no longer needs to meet specific allocation percentages. Rather, the Investment Plan will include allocation amounts for each funding category. The Fund reports it has awarded more than $145 million in grant awards thus far. As we noted in our original audit, the Fund plans to report based on actual dollars spent rather than allocation amounts. The Fund followed through with its first opportunity to report on initial spending by grantees. The July 2022 report to Council stated grantees spent about one-third of the $6.2 million awarded. Since projects can be multi-year, the first round of grant awards from 2021 will not be closed out completely until August 2024. The Fund's Committee and staff plan to deliver a progress report to Council at a work session in July 2023.
- **Setting program performance goals and developing reporting system**. At the upcoming work session, the Fund's Committee and staff will also discuss performance measures. To that end, the Committee approved a set of high-level measures that cover five areas: climate, co-benefits, investment, Fund stewardship, and workers and businesses. The Committee will use these measures to begin reporting the Fund's outcomes to the public. The Investment Plan will also specify desired outcomes and measures for each funding category and strategic

program. The Fund continues to collect performance information from grantees and plans to launch a digital dashboard by early 2024.

- **Completing their workforce and contractor equity plan.** The Committee has yet to adopt a workforce and contractor equity plan. The first version was released in May 2023 as an appendix to the draft Investment Plan. The Fund reports that content includes the results from the labor market study performed by outside consultants. The legislation requires that the Committee also consult with appropriate stakeholders. Since the audit, the High Road Advisory Council – a group established in April 2022 to provide guidance on a range of workforce and contracting issues – has provided feedback and plans to review the content again after the public comment period.

View the original 2022 report and recommendations.

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