



**City of
Portland, Oregon**
Bureau of Development Services
FROM CONCEPT TO CONSTRUCTION

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BDS Financial Advisory Committee (BAC)
Meeting Notes
Tuesday, September 16, 2014

Committee Members Present

Phil Damiano, Development Review Advisory Committee
Justin Douglas, Portland Development Commission
Eric Hovee, E.D. Hovee & Co.
Jerry Johnson, Johnson Economics
Mike Wilkerson, ECONorthwest

City Staff Present

Rebecca Esau, BDS
Mark Feters, BDS
Kara Fioravanti, BDS
Elshad Hajiyev, BDS
Josh Harwood, OMF
Doug Le, City Budget Office
Dora Perry, Commissioner Fritz's Office
Andy Peterson, BDS
Paul Scarlett, BDS
Deborah Sievert Morris, BDS

Guests Present: None

Committee Members Absent

Kimberly Branam, Deputy Director, PDC
Lorelei J. Juntunen, ECONorthwest
Keith Skille, GBD Architects

Handouts

- Financial Summary
- Non-Cumulative Cost Recovery Report
- BDS Revenue Composition
- Workload Measures Report

Welcome & Self-Introductions

BDS Director Paul Scarlett welcomed Finance Committee members and City staff. He noted the importance of the Committee's input on BDS's financial projections and thanked Committee members for their work.

Mr. Scarlett noted that BDS is heavily dependent on permit fees, so the bureau is doing well financially due to the strength of the development industry in Portland. Cost recovery is strong and bureau reserve goals are being met.

However, for the last couple years workload growth has been outpacing staff levels and impacting BDS's ability to realize its service level goals. In order to enable the bureau to add staff more quickly, BDS has been using the City's Budget Monitoring Processes (BuMPs) and even City Council ordinances to add staff at multiple times during the budget cycle. In March 2014 City Council approved an ordinance to add 18 staff positions to BDS, and Commissioner Fritz has approved BDS to use the Fall 2014 BuMP to add further positions that would otherwise wait for the FY 2015-16 budget process. BDS will do in-depth analysis to determine number and types of positions to be added.

Mr. Scarlett extended Commissioner Fritz's appreciation for the Committee's work and her regret at not being able to attend this meeting.

BDS Administrative Services Manager Deborah Sievert Morris gave an overview of the meeting agenda.

BDS Finances & Financial Planning Update

BDS Finance Manager Elshad Hajiyev welcomed new Committee members from the Portland Development Commission (PDC) and ECONorthwest. Mr. Hajiyev reviewed the handout *BDS Revenue Composition*. He noted that state law prohibits BDS from using revenues from state-mandated construction programs to support local code enforcement programs. The bureau's dependence on those revenues for 95% of its budget makes the accuracy of BDS's financial projections exceedingly important.

Mr. Hajiyev then reviewed the handouts *Financial Summary*, *Non-Cumulative Cost Recovery Report*, and *Workload Measures Report*. He noted that the composition of development projects has changed significantly from the recession – from smaller projects to a balance between large and small projects. Valuations have correspondingly increased substantially. Workloads and valuations have not yet returned to the historic peak experienced before the recession.

Mr. Hajiyev said the bureau needs input on where the market/industry is going.

Residential

The bureau is seeing prices increase with rates staying low. Jerry Johnson (Johnson Economics) said that everyone is waiting for prices to crash; there is currently more supply in the pipeline than will be needed, so there will be a bust at some point. Mr. Hajiyev said Metro is estimating 250,000 new residents annually through 2035. Eric Hovee (E.D. Hovee & Co.) suggested paying closer attention to what's happening in

the suburbs. Prices are picking up outside of Portland, as well as in the core. Looking at a mix of Portland and the suburbs will be helpful going forward.

Mr. Scarlett asked what the length of the current cycle may be, and when it started. Mr. Johnson said it depends on what product is being considered. He described how construction trails the market, resulting in projects being built after the end of a cycle.

Mr. Hovee said that it will be important to pay attention to structural shifts in age demographics. The population is trending older, though there is a wave of millennials. It will be important to understand what demographic changes mean for housing choices.

Mike Wilkerson (ECONorthwest) said that recent surveys show that millennials have a higher preference for single-family residences (SFRs) that had been thought, but they can't qualify for financing to purchase it.

The group also discussed the micro-housing market (SRF and multi-family).

Mr. Hajiyev asked whether millennials will be able to afford larger SFRs in the suburbs in the next few years. Mr. Wilkerson said he doubted they would because of the lack of good-paying middle-class jobs (\$40-80K) that would support that. Josh Harwood (OMF) noted that Portland in particular doesn't have those kinds of jobs, but still attracts millennials. Mr. Hovee said he thinks this is an unknown at this point.

Kara Fiorivanti (BDS) asked if the condo market would pick up with baby boomers selling their homes. Mr. Hovee said it will be a mixed bag; not as many boomers will go into condos as would have in the past.

Mr. Scarlett noted that BDS has to project five years into the future. The bureau doesn't want to lay off staff, so being able to predict accurately is important. Mr. Johnson noted the use of temporary workers in the private sector. Mr. Scarlett said that BDS has used limited term and temporary positions in the last couple years, but wants to convert those to permanent because it is easier to attract good workers.

Mr. Scarlett discussed the bureau's reserves, how they were used during the recession, where they're at now, and the current reserve policy. BDS is avoiding fee increases as much as possible now that reserves are high. The development industry supported fee increases during the recession in order to maintain services, but is not supportive of increases now. Mr. Harwood said it makes sense to have high reserves now; this will make it easier for BDS to maintain services in the next downturn.

Mr. Scarlett noted the long list of development projects that are in the pipeline (85% or higher likelihood of being built). Ms. Fioravanti said that their current list shows 35 projects with a valuation of at least \$10 million and an 85% or higher probability of being built. The percent of institutional projects (hospitals, etc.) has gone down some, but is still strong. Hospital projects are slowing down, though OHSU wants to build 4 large buildings in the near future. She said that the list alone would mean solid work for the bureau for the next two years.

Andy Peterson (BDS) said that they are seeing 20-25 NSFR permit applications per week (some are teardown and rebuild). The average valuation has increased from around \$200k to \$250k.

Mr. Hovee and Mr. Johnson said there will be more projects in the flex-office category. Mr. Wilkerson said Portland has the lowest office vacancy rate in the nation.

Justin Douglas (Portland Development Commission) asked whether BDS is concerned about changes to the City Comprehensive Plan and possible budget implications. Mr. Scarlett replied that it's too early to know what the effects will be; the market indicators are more immediate and pressing. BDS is watching the Comp Plan and will make changes if needed. Mr. Hovee said it will be important that the zoning codes be adaptable to changes in the workplace.

Current Economic Trends Discussion

Mr. Hajiyev said that Portland's unemployment rate is about at the national level, which is good, though the labor participation rate is lower. He asked the Committee about their expectations regarding employment, inflation, and interest rates.

Mr. Wilkerson said economists agree that quantitative easing will end in the next few months and interest rates will go up, though they don't agree on the timing. Not as many people are concerned about high inflation. Mr. Hovee said he thinks things will be steady over the next 2-3 years, at least until the next election. Rates will go up some, but not significantly. Inflation will be reasonable. Mr. Wilkerson said that if the minimum wage increases substantially, it could lead to inflation.

All agreed that there should be steady growth over next few years, with stable interest rates. It is likely there will be some slowdown in the 3-5 year range. The current growth has been sustained because the pace has been so slow.

Next Meeting Details

Mr. Hajiyev noted that the Committee is meeting now because BDS is adding positions in the Fall BuMP. The next meeting will be in mid-December, with a final meeting in January 2015.

Meeting notes prepared by Mark Feters, BDS