



City of Portland, Oregon
Bureau of Development Services
Business Operations and Finance Services
FROM CONCEPT TO CONSTRUCTION

Chloe Eudaly, Commissioner
Paul L. Scarlett, Director
Phone: (503) 823-7300
Fax: (503) 823-6983
TTY: (503) 823-6868
www.portlandoregon.gov/bds

BDS Finance Committee

Meeting Notes

Friday, January 13, 2017

Committee Members Present

Josh Harwood, City Economist
Eric Hovee, E.D. Hovee & Co.
Mike Paruszkiewicz, NW Natural
Tom Potiowsky, PSU Northwest Economic Research Center (Call in)
Peter Hulseman, PSU Northwest Economic Research Center (Call in)

City Staff Present

| | |
|-----------------------------|--|
| Rebecca Esau, BDS Office | Marshall Runkel, Commissioner Eudaly's |
| Elshad Hajiyev, BDS | Andy Peterson, BDS |
| Mitch Nickolds, BDS | Kyle O'Brien, BDS |
| Ray Galinat, BDS | Deborah Sievert Morris, BDS |

Handouts

- December 9, 2016 Meeting Notes
- Economic Models
- Preliminary Programmatic Growth Rates
- Alternative Scenario Options

Welcome & Self-Introductions

Deborah Sievert Morris welcomed Finance Committee members and City staff. Committee members and staff introduced themselves.

Deborah expressed appreciation for the Committee's time, especially during this period of inclement weather, and informed participants this is the last scheduled Finance Committee meeting of the 2017-2018 fiscal year budget cycle. Time was then provided to review and approve minutes from the previous meeting, of which there was unanimous approval. The meeting was then turned over to Elshad Hajiyev.



City of Portland, Oregon
Bureau of Development Services
Business Operations and Finance Services
FROM CONCEPT TO CONSTRUCTION

Chloe Eudaly, Commissioner
Paul L. Scarlett, Director
Phone: (503) 823-7300
Fax: (503) 823-6983
TTY: (503) 823-6868
www.portlandoregon.gov/bds

Preliminary Five-Year Revenue Growth Rates

Elshad began by stating major changes are not expected over the next couple of years. There has been some concern relating to the effects of upcoming Inclusionary Housing (IH) implementation, however effects are expected to be mitigated via the “Grandfathering” of Land Use cases submitted before IH takes effect on February 1, 2017. Applicable code is determined by submittal date, and once fully submitted it takes 180 days to render a decision, after which the applicant has 3 years to obtain an issued permit. This has resulted in a 300% increase of large project Land Use review submittals over the last couple months, as developers get their project submittals in before the IH effective date.

Since permit fees are not due until permit issuance, revenues are expected to be fairly constant over this 3 year period, even if submittals decline. Elshad noted that permit valuation of submitted Land Use case reviews will increase over time, manifesting in higher revenues at permit issuance. Additionally, large multifamily projects are expected to remain active over the next 2 – 2 ½ years due to high demand. Certainty substantially decreases after this 2 – 2 ½ year period as the effects of IH on development are currently an unknown.

Eric Hovee inquired as to the flexibility of making adjustments to approved Land Use case reviews. Andy Peterson informed the Committee that Land Use case approvals are mainly regarding the exterior look of a building, and not structural aspects of a project. Rebecca Esau noted that there is not much room to tweak an approval, especially Design Review approvals.

Elshad then informed the panel of the desire for their expertise and advice in applying adjustment factors to years 3-5 of the Five-Year Financial Plan, due to this uncertainty. Andy Peterson mentioned that while Land Use submittals have tripled, there are no new submittals expected for the rest of the fiscal year due to February 2017 activation of Inclusionary Housing. The expectation is for overall submittals to be up about 40% for Fiscal Year 2016-2017. Rebecca Esau added that another bubble is expected in the second quarter of Fiscal Year 2017-2018 before 2018 code changes come into effect. Mike Paruszkiewicz posited these factors may serve as a “backstop” to any Inclusionary Housing adjustments.

The Committee agreed adjustments were necessary to account for upcoming IH regulations, recommending that adjustments should cover a short period, and be large; up to 50% of multifamily.



City of Portland, Oregon
Bureau of Development Services
Business Operations and Finance Services
FROM CONCEPT TO CONSTRUCTION

Chloe Eudaly, Commissioner
Paul L. Scarlett, Director
Phone: (503) 823-7300
Fax: (503) 823-6983
TTY: (503) 823-6868
www.portlandoregon.gov/bds

Projections and Changes in Model

Kyle O'Brien proceeded to provide an overview of the econometric models, discussing the rationale and strengths of each.

Tom Potiowsky was curious as to the use of Average Percentage Error (APE) and Mean Absolute Percentage Error (MAPE). Elshad answered that BDS gives more weight to MAPE in order to focus on yearly accuracy.

There was also discussion about the tendency of the Land Use Services econometric models to forecast on the high side. Josh Harwood posited there might be fewer, but larger projects. Kyle O'Brien responded that permits are still at record highs, but Land Use submittals have not recovered to the high levels seen prior to the recession. Rebecca Esau added that in addition to IH regulations effective February 2017, there are additional code changes going into effect in 2018. Mike Paruszkiewicz noted that looking at 17 years of permit history and 5 years of interest rate history might account for the negative APE, bringing to light possible increased materiality going forward as the Federal Reserve is expected to increase interest rates, resulting in higher future forecasts.

Tom Potiowsky voiced his thought that plumbing and electrical programs would be closely related, and therefore should have the same explanatory variables. Elshad Hajiyev recognized the correlation between plumbing and electrical programs, but noted the plumbing program provides a higher level of complexity in identifying a clear trend, in addition to being more reactive to recession and recovery cycles.

Josh Harwood inquired as to the 4% reduction in Electrical permit revenue from 2015 to 2016. Andy Peterson informed the Committee the revenue reduction was a result of State enacted programs that reduced fees for large projects. Eric Hovee asked if BDS makes adjustments for similar program changes. Kyle O'Brien mentioned that historical data is not available to conduct such an analysis. Elshad Hajiyev added that if program changes are expected to be large, such as with Inclusionary Housing, an adjustment will be made; the State enacted Electrical programs were not significant enough to include a "dummy variable" for the fiscal year 2016-2017 forecast.

Alternative (Worst) Case Scenario

The Committee discussed how the Worst Case Scenario is applied. Worst Case Scenario reductions to the Base Case Scenario were proposed at 5% in year 1, 7.5% for years 2 and 3, then 2.5% in years 4 and 5. This methodology was used in order to model a recession, while spreading recession risk over a five year period. The



City of Portland, Oregon
Bureau of Development Services
Business Operations and Finance Services
FROM CONCEPT TO CONSTRUCTION

Chloe Eudaly, Commissioner
Paul L. Scarlett, Director
Phone: (503) 823-7300
Fax: (503) 823-6983
TTY: (503) 823-6868
www.portlandoregon.gov/bds

Committee agreed this was an acceptable approach, especially given the difficulty in forecasting recession origination.

Finance Committee Letter of Support

The Committee agreed signing a letter of support to be included in the Financial Plan was a good idea. Elshad Hajiyev will send out an electronic version for the Committee to sign.

Adjournment

Elshad Hajiyev thanked Committee members again for their time and reiterated the importance of their input in development of BDS financial forecasts.

Meeting notes prepared by Ray Galinat, BDS