



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

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**BDS Finance Committee**  
**Meeting Notes**  
**Friday, January 13, 2017**

**Committee Members Present**

Josh Harwood, City of Portland Economist  
Eric Hovee, E.D. Hovee & Co.  
Peter Hulseman, Northwest Economic Research Center  
Rob Humphrey, DRAC  
Jerry Johnson, Johnson Economics  
Kirk Olsen, DRAC  
Mike Wilkerson, ECONorthwest

**City Staff Present**

Dan Cote, BDS	Rebecca Esau, BDS
Ray Galinat, BDS	Elshad Hajiyev, BDS
Seth Lemler, BES	Kathy Lyndon, BDS
Kyle O'Brien, BDS	Yung Ouyang, City Budget Office
Dora Perry, BDS	Andy Peterson, BDS
Marshall Runkel, Commissioner Eudaly's Office	
Kim Tallant, BDS	

**Handouts**

- Economic Models
- Preliminary Programmatic Growth Rates
- Alternative Scenario Options
- November 29, 2017 Financial Advisory Committee Minutes
- Preliminary Proposed FTE Additions
- Multifamily Projects since February 1, 2017
- FY2017-18 Financial Advisory Committee Letter

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## **Welcome & Self-Introductions**

Elshad Hajiyev welcomed Finance Committee members and City staff. Committee members and staff introduced themselves.

Elshad expressed appreciation for the Committee's time, and informed participants this is the last scheduled Finance Committee meeting of the 2018-19 fiscal year budget cycle. Time was then provided to review and approve minutes from the previous meeting. There was unanimous approval, contingent upon clarifying the language in sentence 1, paragraph 4, Housing Affordability section, Current Economic Trends Discussion. Elshad then provided an overview of the agenda, before turning the meeting over to Kyle O'Brien.

## **Preliminary Five-Year Revenue Growth Rates**

Kyle began by offering an overview of the preliminary growth rates. The underlying models primarily rely on data provided by Moody's and the NW Economic Research Center, with Moody's Standard Scenario utilized in forecasting BDS Base Scenario growth rates. In general, the models show a small growth rate increase in fiscal year 2018-19, followed by decreases in years 2 and 3, with smaller declines or increases in years 4 and 5. Additionally, the BDS base scenario growth rates do not account for large projects, rather adjustments are made to the base scenario based on estimated large project activity.

The panel proceeded to discuss some of the strengths and weaknesses of econometric modeling. While most econometric models perform well in this type of economic environment, they are not necessarily astute at predicting economic inflection points. Interest was noted in running models around historic turning points to analyze which models, if any, accurately predicted economic turning points.

Other points of discussion included: confirmation that econometric models are compared to historic actuals; the assertion that Land Use Services workload and revenue can function as a leading indicator for other programmatic revenues; BDS' plan to run its own alternative scenarios.

## **Projections and Changes in Model**

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

The question was raised if any Inclusionary Housing (IH) variables had been included in the Land Use models, as well as the possibility of a transitory add factor to account for the front loading of IH projects that occurred directly before the policy went into effect. While the timeframe was determined to be too soon to provide an accurate adjustment, the concern was noted that a lack of IH information may result in overestimating the "leading indicator" (Land Use Services).

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Conversation over the Building Permit Models revolved around the models' ability to provide management with enough information, and granularity of information, to make effective decisions in mitigating service level impacts, were an economic downturn to occur. In response, Elshad provided a couple key points: 1. Monthly seasonality is tracked against the forecast, providing the ability to historically pinpoint turning points; 2. BDS currently has tracking mechanisms in place for reporting on various monthly workload measures, and the possibility of utilizing this data in forecasting will be analyzed; 3. While BDS has a Business Continuity Plan in place for the purpose of mitigating negative impacts to services levels, there are political ramifications of, and political constraints to operational "nimbleness."

Additionally, it was noted that currently rents are flat while housing prices are continuing to increase. Historically BDS modeling has used housing price indicators not only for housing, but as a proxy for the rental market. BDS currently does not have rental data to include in econometric models.

### **Alternative (Worst) Case Scenario**

In keeping with the Finance Committee recommendation last year, BDS is proposing adjustments be built into the alternative case scenario at 5% in year 1, 7.5% for years 2 and 3, then 2.5% in years 4 and 5. The goal of this methodology is to model a recession, while spreading recession risk over the five-year forecasted period. The Committee agreed this was an acceptable approach, especially given the difficulty in forecasting recession origination.

Concern was raised regarding the high probability in the presented "worst case" scenario being the actual scenario, with a more dramatic worst case. As such, the question was posed if BDS has outlined the worst-case scenario at a service delivery/workload measure level. BDS has performed some similar analysis regarding multi-family and might be able to apply that on a larger, bureauwide scale.

### **Preliminary Proposed FTE Additions**

A breakdown of preliminary proposed FTE additions was presented to the committee. A few of the positions are directly related to meeting future service level demands created by upcoming legislation (i.e. Senate Bill 871 demolitions, as well as DEQ requirements).

The panel had questions regarding BDS processes for FTE requests as well as the expected effects of proposed FTE adds on current service levels. BDS staff noted service levels are currently constrained more by challenges in filling already approved FTE positions, and finding qualified candidates. Additionally, it was noted that BDS has opportunities to increase efficiencies, and that a true picture of FTE needs will not be available until business process improvements are completed.

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**Multifamily Projects Report**

In response to the committee's request regarding the number of submittals under the current zoning code, the Multifamily Projects report was presented. The report details projects of 20 plus units submitted after the implementation of the Inclusionary Housing Policy.

**Finance Committee Letter of Support**

The Committee agreed signing a letter of support to be included in the Financial Plan was a good idea, and that BDS should draft the letter. Kyle O'Brien 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 Kathy Lyndon & Ray Galinat, BDS