



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

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BDS Financial Advisory Committee
Meeting Notes
Wednesday, January 9, 2019

FAC Members Present:

Josh Harwood, City of Portland Economist
Holly Huntley, Development Review Advisory Committee
Peter Hulseman, Northwest Economic Research Center
Mike Parusiewicz, Northwest Natural
Jeff Renfro, Multnomah County
Mike Wilkerson, ECONorthwest

City Staff Present:

Beth Benton, BDS	Tyler Berry, PBOT	Tyler Bump, BPS
Dan Cote, BDS / POPS	Alex Cousins, BDS	Rebecca Esau, BDS Director
Mark Fetters, BDS	Ray Galinat, BDS	Darryl Godsby, BDS
Elshad Hajiyev, BDS	David Kuhnhausen, BDS	Elliot Lisac, Water Bureau
Erin Mick, Water Bureau	Doug Morgan, BDS	Kyle O'Brien, BDS
Yung Ouyang, Budget Office	Dora Perry, BDS	Andy Peterson, BDS
Duane Peterson, BES	Cory Stanley, Fire	Kim Tallant, BDS
Dave Tebeau, BDS	Duane Whitehurst, BDS/POPS	Joe Zehnder, BPS

Handouts

- Econometric Models
- Preliminary Programmatic Growth Rates
- Alternative Scenario Options
- 12-5-2018 Financial Advisory Committee Minutes

1. Welcome / Introductions

BDS Director Rebecca Esau welcomed Financial Advisory Committee (FAC) members and City staff and convened the meeting. Director Esau expressed appreciation for the committee members in attendance and their input. Attendees made self-introductions.

12-5-18 Meeting Notes

Committee members reviewed and approved draft notes from the December 5, 2018 FAC meeting, with one change: FAC Member Mike Parusiewicz asked that the wording in the second sentence in the Single Family paragraph on page 5 be changed from “few units” to “fewer units”.

2. Meeting Overview

BDS Sr. Business Operations Manager Elshad Hajiyev walked attendees through the meeting agenda. Regarding financial projections, Hajiyev noted that BDS’s current financial status is tracking closest to the Alternative (Worst Case) Scenario from last year’s financial plan.

3. Preliminary Revenue Growth Rates and Econometric Models

Preliminary 5-Year Revenue Growth Rates

BDS Budget & Finance Manager Kyle O’Brien reviewed the handouts ***Econometric Models*** and ***Preliminary Programmatic Growth Rates***. Building, Mechanical, Plumbing, Electrical, and Land Use Services fee revenues are econometrically forecasted. Rates for the Facility Permit Program (FPP) and the Field Issuance Remodel Program (FIR) are a weighted average of the Building, Mechanical, Plumbing, and Electrical growth rates. Site Development and Zoning Enforcement growth rates are based on the Building Program rates. Environmental Soils, Signs, and Neighborhood Inspections are projected using averages of forecasted economic data.

Land Use

O’Brien noted that Land Use Case Review projections are challenging, since activity levels are susceptible to code and policy changes. Director Esau observed that more code changes are on the horizon and asked if there is a way to factor that into the models. O’Brien replied that these models do not take code changes into account. Rather, staff prepares the base forecast and applies the projected growth rates to bureau programs, then makes manual adjustments for policy and other changes.

FAC Member Mike Wilkerson said that Model #2 in ***Econometric Models*** should perform better at predicting the inflection point than Model #1. Wilkerson suggested looking at nonlinear modeling as an alternative method to capture economic inflection points. FAC Member Josh Harwood said that growth rate projections should take into account Inclusionary Housing (IH) effects; if current trends are the result of IH, future growth rates may be higher than the models project.

Hajiyev asked FAC members whether they thought that the projected growth rates were reasonable. Wilkerson replied that the projections aren’t unreasonable, but it’s hard to say with land use projections because of the impact of IH regulations. After further discussion,

Wilkerson and Harwood said that they were comfortable with the projections through 2020, but they then expect a levelling.

O'Brien asked if there would be a continued decline in land use applications (rather than a levelling) if the overall business climate declines. Harwood said that might be the case, or the bureau could see different kinds of land use applications.

Hajiyev asked how the levelling should be reflected in the model. Wilkerson said the model might change after the addition of another data point (additional year of data). Harwood was more concerned about the rationale behind the model than about whether the model shows the levelling.

Building Permits

After reviewing the building model, FAC members recommended comparing the current level of unit starts to Moody's projections; if Moody's is overestimating, further downward adjustment to building growth rates may be necessary.

Parusiewicz suggested projecting a per unit valuation for building permits in the future.

Trade Permits

Wilkerson asked whether the mechanical permit rebound wouldn't be pushed out another year since BDS is projecting a two-year decline in land use applications and building permits. BDS Permitting Services Manager David Kuhnhausen said that mechanical permits would run concurrent with building permits; electrical and plumbing permits would be pushed out later.

O'Brien said that electrical and plumbing projections use building permits as a variable. Plumbing has been the most difficult to project, as it doesn't necessarily follow the building program or other programs. The Committee generally agreed with the projected growth rates provided by the Mechanical, Electrical, and Plumbing models.

Hajiyev summarized the recommendations from FAC members to include:

- Looking again at the land use and building program projections for 2021; and
- Exploring non-linear (non-econometric) models in the future.

Harwood said that it might be helpful to provide a narrative summary for each model, before getting into the numbers. Wilkerson suggested adding previous years' growth rates, to give context/perspective to future year projections.

4. Alternative (Worst) Case Scenario

O'Brien reviewed the handout *Alternative Scenario Options* and summarized the Worst Case Scenario. The scenario front-loads the declines, so the next couple years are worse than the baseline scenario, and then it tapers off over time. Worst Case Scenario assumptions are based on previous input from the FAC.

Harwood questioned whether years 3 and 4 of the Worst Case Scenario are plausible; the scenario compounds the downward trend, which can lead to progressively worse numbers in the out years. O'Brien replied that the bureau would prefer to project on the lower end with the Worst Case Scenario.

Wilkerson said that the scenario's assumed 7.5% reduction in FY 2019-20 could possibly be too aggressive, given that the Base Case Scenario is already projecting a drop.

FAC Member Jeff Renfro agreed with the methodology for the Worst Case Scenario but said that it could more explicitly say that the out years could be impacted by recession.

Wilkerson asked whether bureau reserves are forecast under the Worst Case Scenario. O'Brien said that BDS projects reserves under both the Base Case and Worst Case Scenarios. BDS also does shorter-term, program-specific projections to estimate changes to reserves on a monthly basis. Hajiyevev noted that reserves are tied to specific bureau programs. Land Use Services is drawing over \$600,00 per month from its reserves to fund ongoing operations and is well below its reserve goal of 50% of annual expenditures. Most other bureau programs are drawing on their reserves to a lesser extent, but are over their reserve goals.

5. Expenditures - Preliminary Proposed Cost Saving Measures

Hajiyevev summarized cost saving measures that BDS has already implemented or is considering. A full list of cost saving measures was not included as a handout because it hasn't been shared with employees yet. The full list will be sent to FAC members after it is shared with employees.

Examples of measures already implemented include:

- Hiring has been "paused" through 12/31/19, with some exceptions.
- The employment of four probationary employees has been ended. BDS is reviewing workload and staffing data to determine if other probationary employees could be impacted.
- Training and travel budgets are limited.
- Overtime has been reduced, but it still available in some programs that still have high workloads.
- Permit Night has been reduced to twice monthly, rather than weekly.
- Non-essential spending (office supplies, contracting, etc.) is being reduced.
- Two facility projects have been postponed.
- Employees have been given the option to reduce their work schedules from 80 to 72 hours per pay period.
- Non-paid time off has been made available.

The bureau has considered, but is not offering:

- Furloughs;
- Retirement incentives; and
- Targeted severance

BDS is considering eliminating temporary/limited term positions, and the Land Use Services program has put its Portland State internship program on hold.

Erin Mick (Water Bureau) asked whether there will be any direct layoffs. Hajiyev said the bureau will know more later in January. Personnel decisions will be based on not only revenues, but workload. In the last recession, revenues dropped much more than workload. BDS wants to make sure that service levels are not affected as severely as they were in the last recession.

Yung Ouyang (City Budget Office) asked how Portland Online Permitting System (POPS) spending factors into the forecast. Hajiyev said POPS is included in the forecast and is moving forward. All the cost saving measures are applied to POPS along with other bureau programs.

6. Finance Committee Report

O'Brien noted that in past years, the FAC has submitted a letter to accompany BDS's 5-Year Financial Plan. After discussion, FAC members asked O'Brien to draft a letter and circulate it to FAC members for review. BDS's 5-Year Financial Plan will be submitted to the City Budget Office on February 4, 2019.

7. Adjournment

Hajiyev and Esau expressed thanks to FAC members for their time and clear recommendations. This was the last scheduled FAC meeting for the FY 2019-20 budget process.

Meeting notes prepared by Mark Feters and Ray Galinat (BDS).