



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

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BDS Budget Advisory Committee
Meeting Notes
Tuesday, January 14, 2020

BAC Members Present:

Barbara Alexander, Hacienda CDC
Connie Jones, BDS / DCTU
Coya Crespín, Community Alliance of Tenants
Elizabeth Duncan, BDS / PROTEC
Gabby Bruya, BDS / Non-Represented
Nancy Thorington, BDS Equity Committee
Sean Green, DRAC
Susan Steward, Building Owners & Managers Association

City Staff Present:

Alex Cousins, Communications Manager
Beth Benton, Property Compliance Manager
Darryl Godsby, Commercial Inspections Manager
Dave Tebeau, Residential Inspections Manager
David Kuhnhausen, Permitting Services Manager
Dora Perry, Equity & Policy Development Manager
Douglas Morgan, Plan Review Services Manager
Duane Whitehurst, POPS
Elshad Hajiyev, BDS Deputy Director
Kathy Lyndon, BDS Budget & Finance
Kimberly Tallant, Land Use Services Manager
Kyle O'Brien, BDS Budget & Finance Manager
Ray Galinat, BDS Budget & Finance
Rebecca Esau, BDS Director
Yung Ouyang, City Budget Office

Handouts

- Draft 12-03-19 BAC Meeting Notes
- BDS Financial Advisory Committee Draft Meeting Minutes 01-09-20
- Non-Cumulative Cost Recovery Report
- Major Workload Parameters
- Business Continuity Plan Summary
- BDS Reserve Summary
- Preliminary Revenue Growth Rates
- Draft BDS Budget Advisory Committee Report

1. Welcome/Convene Meeting

BDS Deputy Director Elshad Hajiyev welcomed BAC members and City staff and convened the meeting. Attendees made self-introductions.

BAC members reviewed and approved the December 3, 2019 BAC meeting notes.

2. Economic Outlook

BDS Budget & Finance Manager Kyle O'Brien reviewed the handouts ***Preliminary Revenue Growth Rates*** and described the processes the bureau uses to develop econometric models and make financial projections. BDS projects both revenues and expenditures five years into the future. The BDS Financial Advisory Committee reviewed the models and found them to be reasonable and defensible, and concurred with the growth rates that the models produced. In the "Base Case Scenario" revenue growth rates are predicted to increase slightly in FY 2020-21 in most programs, followed by declines in FY 2021-22 and FY 2022-23 before returning to a growth trend. Land Use Services Case Reviews are the exception with a slight decline projected in FY 2020-21. The "Worst Case Scenario" reflects a substantial economic downturn. The scenario spreads the effects of the downturn over the five years.

Kyle explained expenses are also projected, the majority of which are personnel costs. Projected expenses are then combined with projected revenues to calculate cost recovery rates by program by year. For the upcoming fiscal year, BDS will see a substantial increase in rent expenditures resulting from the City implementing blended rental rates for downtown office buildings. Due to this change, BDS will incur an additional \$3.2M in annual rent expense. Elshad stated a 5% fee increase will be proposed for most programs except Zoning Enforcement in an effort to offset the increased rent expense.

BAC Member Susan Steward ask what is driving the rental rate. Kyle explained that BDS saw a decrease in rent when debt service on the 1900 Building ended. Debt service from the Portland Building remodel is incorporated into the blended rental rates charged to bureaus by Office of Management and Finance, substantially increasing the rate for BDS when compared to the current year.

Manual adjustments are made to revenue and expenditure projections to account for workload and staffing changes, as well as large projects. The Airport Expansion Project, with an expected valuation of \$1.5 billion, is expected to be submitted in the coming year and would account for about half of total annual submittal valuations in a typical year. The revenue from this project will come in phases; therefore, BDS will spread the associated revenues over the five-year forecast period.

Susan inquired as to economist sentiment regarding the economy in the upcoming year. Kyle noted the economists on the Finance Advisory Committee were non-committal. Economists predict a downturn at some point during the forecast period; however, they are not certain regarding the timing.

BAC Member Barbara Alexander asked for clarification on inclusion of a past due loans variable in the revenue projection models, referencing the FAC Meeting Minutes. Kyle explained that the last recession saw a spike in past due loans and inclusion of such a variable helps with model fit.

Plan Review Services Manager Douglas Morgan ask how vacancies are projected. Kyle and Elshad explained that revenue projections are used as a proxy to estimate future workload, which then inform filled vacancy assumptions.

Kyle then brought the committee's attention to the handouts ***Non-Cumulative Cost Recovery Report, Major Workload Parameters, Business Continuity Plan Summary, and BDS Reserve Summary***, detailing that BDS is currently operating at a 90% cost recovery rate. Additionally, an increase in permit valuation submittals has corresponded with a decrease in number of permits, indicating increased large project submittals. Furthermore, Business Continuity Plan Indicators have taken a positive turn since the last meeting.

Barbara Alexander asked how increased construction costs effect valuation. Kyle explained that valuation is tied to the International Code Council (ICC) valuation tables. Increased building costs will result in increased permit valuations to the extent those cost increases are recognized in the ICC valuation tables.

3. Budget Advisory Committee Report / Next Steps

The committee reviewed the **Draft BDS Budget Advisory Committee Report**. Elshad facilitated a thorough paragraph by paragraph review. There were impactful conversations regarding upcoming equity efforts. After discussions, committee members reconfirmed the desire to recommend (1) strongly recommend the creation of a City Manager position to oversee services provided across multiple bureaus, (2) adding a BDS data analyst dedicated to gathering and analyzing equity-related data, and (3) increasing resources for the Specialized Permitting Services Program. Committee members voted on edits and final language to be included in the report.

Meeting notes prepared by Kathy Lyndon & Ray Galinat, BDS