Ted Wheeler, Mayor
Rebecca Esau, Director
Phone: (503) 823-7300
Fax: (503) 823-6983
TTY: (503) 823-6868
www.portlandoregon.gov/bds

BDS Financial Advisory Committee

Meeting Notes
Tuesday, November 19, 2019

FAC Members Present:
Jeff Renfro, Multnomah County
Josh Harwood, City of Portland Economist
Mike Paruszkiewicz, Northwest Natural
Paul Delsman, DRAC
Peter Hulseman, Northwest Economic Research Center
Sean Green, DRAC
Tyler Bump, ECONorthwest

City Staff Present:
Andy Peterson, Special Projects, BDS
Anthony Martin, BES
Beth Benton, Property Compliance Manager, BDS
Bimal RajBhandary, PHB
Brian Landoe, Parks Urban Forestry
Duane Whitehurst, Portland Online Permitting System Manager, BDS
Darryl Godsby, Commercial Inspections Services Manager, BDS
David Kuhnhausen, Permitting Services Manager, BDS
Dave Tebeau, Residential Inspections Services Manager, BDS
Dora Perry, Equity and Policy Development Manager, BDS
Dory Van Bockel, PHB
Doug Morgan, Plan Review Services Manager, BDS
Elshad Hajiyev, Deputy Director, BDS
Erin Mick, Water
Kathy Lyndon, BDS Budget & Finance, BDS
Kim Tallant, Land Use Services Manager, BDS
Kyle O'Brien, Finance Manager, BDS
Mike Johnson, PHB
Ray Galinat, BDS Budget & Finance, BDS
Rebecca Esau, Bureau Director, BDS
Ryan Kinsella, PBOT
Sandra Wood, BPS
Yung Ouyang, City Budget Office

Handouts

- Financial Summary
- Business Continuity Plan Summary
- Non-Cumulative Cost Recovery Report
- Workload Measures Report
- Large Projects – Valuation $15 Million or More
- Large Projects – 6-Month Comparison
- Line Item Budget
- Explanation of Line Items

1. Welcome / Self-Introductions

BDS Deputy Director Elshad Hajiyev welcomed Financial Advisory Committee (FAC) members and City staff, and convened the meeting by expressing appreciation to the committee members for their attendance and input. Attendees made self-introductions.

2. BDS Finances & Financial Planning Update

Bureau's Current Financial State / FY 2018-19 Performance

BDS Deputy Director Elshad Hajiyev reviewed the handout ***Financial Summary*** and gave an update on BDS's finances over the last several months. FY 2018-19 ended better than expected with revenues posting 10% over estimates, and a 92% cost recovery rate opposed to the 85% cost recovery rate projected in the Financial Plan. Year-end bureau reserves decreased from $91.7 million in FY 2017-18 to $86.2 million in FY 2018-19.

Signs of market cooling beginning in FY 2018-19 have carried over into FY 2019-20, evidenced by continued decrease in the number and size of permit submittals, particularly multi-family which fueled the recent boom in construction activity. Large projects, having valuations over $3 million, show substantial decreases in year-over-year comparisons of the previous 6 months' activity. Revenues from such projects can account for 40%-50% of Building Program revenues in some years. These factors have resulted in 4 out of 5 triggers being activated in BDS' Business Continuity Plan (BCP).

Elshad reviewed the ***Business Continuity Plan Summary***, which was developed in 2009 to track the bureau's performance and financial health. Reserves, the only trigger not in a "red" status, are healthy but are being drawn down at rates comparable to the last recession. The difference this time is that BDS has much more in reserves. In response the bureau has initiated a hiring freeze and is actively limiting non-essential expenditures.

Elshad referenced the handouts ***Line Item Budget*** and ***Explanation of Line Items*** explaining that personnel costs make up over 70 percent of the bureau's expenditure budget. In addition, Elshad reviewed the handouts ***Large Projects – Valuation $15 Million or More*** and ***Large Projects – 6-Month Comparison.*** The number and valuations of large projects are experiencing year-over-year decreases.

Overview of BDS's Forecasting Model

BDS Finance Manager Kyle O'Brien began by setting a framework for FAC meetings. This first meeting serves to provide an overview of the bureau's current financial state while looking to the committee for economic insight, both nationally and locally. Proposed financial forecasting models will be presented for review and critique at the next meeting, along with the five-year programmatic growth rates.

BDS is primarily fee funded, with approximately 2% of revenues coming from the City's General Fund to support the Neighborhood Inspections Program. The majority of BDS fee revenues are associated with State-mandated building code programs, including Building, Mechanical, Plumbing, and Electrical. State statutes regulate these programs and prohibit revenue collected by them to be used for other local code enforcement programs. BDS's local code programs include Land Use Services, Enforcement, Environmental Soils, Signs, Zoning Compliance, and Site Development. Revenues from these programs are to be used on the programs generating the revenues, according to City Code.

A brief overview of the bureau's Five-Year Financial Plan modeling was provided to the Committee. Over 80% of revenues are forecasted by econometric modeling, using data from Moody's, Northwest Economic Research Center (NERC), and Office of Economic Analysis (OEA) in addition to bureau data regarding land use case reviews, permit numbers, valuations, and revenues. Specifically, the Building, Mechanical, Plumbing, Electrical, and Land Use Services fee revenues are econometrically forecasted. The Facility Permit Program (FPP) rates 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 Enforcement are projected using averages of forecasted economic data.

3. Current Economic Trends Discussion

Economic Outlook Discussion

Discussion began surrounding the current macro business cycle. Overall the Portland business cycle is in line with US national trends. Trends conveyed slowing employment and GDP growth, along with manufacturing declining toward zero growth. General committee sentiment seemed to indicate the near future should "muddle along" at slower growth rates.

Also noted was the growing risk of recession, due in part to trade risks and potential policy decisions. According to the Washington Post, in more recent months the recession risk is approximately twenty-five to thirty percent. However, in the absence of a full trade war any potential recession may result from relatively small declines across multiple sectors. Some areas of the country may currently be experiencing a recession and Kyle O'Brien noted this has been the case for BDS over the last 12 months.

The idea was put forth that the overall housing market has been weak for some time, with declines observed over both single family and multifamily development in recent months. When asked why the single family housing market has not bounced back to pre-recession levels, answers from committee members revolved around cost of construction, as well as a general lack of room to grow. Land is expensive for new development. Due to more recent declines in interest rates, there has been a minor uptick in the single-family sector. Additional thoughts included a pullback in investment due to the trade war, and speculation playing less of a role in the current environment when compared to pre-recession levels.

At the local level, committee members noted factors placing downward pressure on Portland development. Net in-migration has been slowing and is forecasted to hold steady until 2020 before tapering off. The committee also discussed how land cost, land availability, and increasing rents in "cheaper" areas may be pushing development to Portland area suburbs. Additionally, it was mentioned that receding multifamily prices and rents make multifamily projects harder to make financially feasible. Five years ago, migration was extremely high. Although the population for younger people has grown, higher cost of living makes it more difficult to move to Portland without a well-paying job. On the labor side, Portland is reaching full employment. There's an oversupply of studios and condos while the migration rates have declined.

In contrast, the sentiment that Portland is becoming a nationally viable development opportunity in comparison to other large national cities was voiced, evidenced by the Ritz Carlton coming to the area. The group financing for the Ritz construction project is from out of town. Portland remains a desirable place to live and is still less expensive compared to other West Coast cities, despite high home prices compared to income levels. If offered, employees are opting to work from home. Portland does not have a job market anchor like Silicon Valley, CA or Amazon in Washington.

Generally, there seemed to be committee consensus that a softening rental market, coupled with high regulatory and construction costs, is placing downward pressure on development in Portland. It was also noted that recent and upcoming policies, such as the Residential Infill Project, may affect development; however, currently there are too many unknowns for the committee to draw concrete conclusions. The economy is in a "wait and see" mode.

The committee was asked what indicators could help forecast hotel, office, and other large commercial development. One recommendation was to use land production over employment, as employment has become disconnected from land use productivity. Other recommendations included communicating with Prosper Portland about the Broadway Corridor, as well as paying attention to various policy initiative votes in 2020-21.

4. <u>Next Meeting Details</u>

The next FAC meeting is scheduled for Wednesday, January 9, 2019.

Meeting notes prepared by Kathy Lyndon, and Ray Galinat, BDS