



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

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
Wednesday, January 9, 2020

FAC Members Present:

Jeff Renfro, Multnomah County
Mike Paruszkiewicz, Northwest Natural
Paul Delsman, DRAC
Peter Hulseman, Northwest Economic Research Center
Sean Green, DRAC

City Staff Present:

Alex Cousins, Public Information Manager, BDS
Andy Peterson, Special Projects, BDS
Anthony Martin, BES
Beth Benton, Property Compliance Manager, BDS
Duane Whitehurst, Portland Online Permitting System Manager, BDS
David Kuhnhausen, Permitting Services Manager, BDS
Doug Morgan, Plan Review Services Manager, BDS
Elshad Hajiyev, Deputy Director, BDS
Erin Mick, Water
Kathy Lyndon, BDS Budget & Finance, BDS
Ken Ray, Public Information Officer, 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
Tom Armstrong, BPS
Yung Ouyang, City Budget Office

Handouts

- Econometric Models
- Preliminary Programmatic Growth Rates
- Alternative Scenario Options
- 11-19-2019 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.

11-19-19 Meeting Notes

Deputy Director Elshad Hajiyev requested Committee members review, comment and propose changes to the draft notes from the November 19, 2019 FAC meeting. There were no changes and notes were approved as is.

2. Meeting Overview

Deputy Director Elshad Hajiyev gave attendees an overview of the meeting agenda.

3. Expenditures

BDS Finance Manager Kyle O'Brien explained BDS must forecast both revenue and expenditures in creation of its Five-Year Financial Plan. Personnel expenses account for approximately seventy percent of overall expenses. There are several factors that increase personnel expenses such as COLA (cost of living adjustments), pay changes associated with new union contracts and employee merit increases. The City is currently in the middle of union negotiations for contracts effective July 1, 2020. BDS is not planning to add new positions in FY 2020-21 and will instead fill or repurpose current vacant positions as needed.

Jeff Renfro from Multnomah County asked if BDS utilizes market studies to adjust for personnel costs, and if the bureau has a sense of how current union contract negotiations will affect personnel costs. Elshad stated COLA is different from contract negotiations. BHR (Bureau of Human Resources) will be conducting a compensation study for PROTEC employees similar to the study completed for non-represented employees. The result of the compensation study for non-represented employees was increased top range salaries. This year the COLA increase is 2.9% compared to 3.9% last year.

Non-personnel expenditures are categorized into two main categories—External Material & Services (EM&S) & Internal Material & Services (IM&S). EM&S costs account for only a small portion of overall BDS expenditures. Annual EM&S increases are based on inflation factors provided by the City Budget Office.

For IM&S, beginning FY 2020-21 the City is implementing blended rental rates for downtown office buildings. Due to this change, BDS will incur an additional \$3.2M in annual rent expense (equivalent to over 5% in fee revenue). Mike Johnson from Portland Housing Bureau (PHB) commented that historically debt service costs have generally ramped-up over time, and therefore BDS may want to make increases exceeding inflation.

Other prominent examples of IM&S expenses are the Development Services Center (DSC) remodel, and Bureau of Technology Services (BTS) costs associated with the Portland Online Permitting System. These are accounted for in the Financial Plan. Mike Paruszkiewicz from

Northwest Natural asked how firm the expenses are for the DSC remodel project. Kyle said we have a ballpark figure and it is not firm.

4. 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.

Manual adjustments are made for large projects. During the forecast period, BDS is expecting revenue from large projects such as Block 216, OHSU Hospital expansion, Madison High School, Lincoln High School, Benson High School and the airport expansion (estimated \$1.5 Billion in overall project valuations). Revenue from the airport expansion will come in phases; therefore, BDS will spread the associated revenues over the five-year forecast period.

Base-Case Scenario

In general, the base-case Scenario shows initial growth in most programs followed by two to three years of moderate decline, with growth in the last couple years of the forecast period.

Land Use Services

BDS is projecting a small decline in case review revenue in the first couple years of the forecast period. Typically, project revenue comes through the bureau beginning with land use case reviews, then building permits, followed by trade permits. Peter Hulseman asked if we use land use data in our building permit models. Kyle mentioned land use data is susceptible to policy changes and noisy, making it difficult to use when modelling building permit applications.

Peter asked about the components to the affordability index. Kyle explained that home prices, interest rates and income are the primary pieces to this variable.

At the request of Sean Green, Kyle provided an overview of the math behind the models.

Building Program

After reviewing the building model, Jeff Renfro asked what additional information is added by including the past due loans variable. Kyle explained that the variable is used as a proxy for overall financial health indicator and its inclusion improves the overall model fit. Elshad added that BDS started using this variable after the last recession.

Trade Programs

Mike Paruszkiewicz noted the appearance of "one directional bias" in some models and recommended to keep this in mind when doing worst-case and best-case projections. Kyle

clarified that BDS does not model a best-case scenario as the baseline forecast is a most likely outcome, not best-case. The worst-case scenario accounts for the downside risk.

Jeff Renfro asked how BDS factors in complexity of projects as various large project types could have disparate impacts on trades permit revenues. Kyle stated manual adjustments are made for large/complex projects.

There was some discussion regarding AR and MA term, and whether it would be appropriate to use them in the models. These variables account for autocorrelation, and in general BDS has been successful in creating models in which autocorrelation is not a major concern.

Paul asked why the variables are not the same for all trade programs and how the variables are chosen for the models. Kyle gave an overview of the variables used. Affordability is included in the models frequently. In a previous year FAC, members recommended affordability as a leading indicator. Other variables include: interest rates (economic health and financing cost driver), population and household data (demand driver), employment (demand driver), mortgage loans (leading indicator of home improvements/remodels) and income (affordability/demand for services). In specifying the models, BDS is considering many factors, including the appropriateness of the variables, overall fit, individual variable significance, past model performance, and the growth rates produced. The models chosen are those which performed the best across the multiple criteria.

Peter suggested aggregating trades since there are spikes in program revenue streams. Kyle reminded the members that our programs are state mandated with revenue restrictions. Elshad noted that while BDS does need to separate revenues for each trades program in the Financial Plan, aggregating trades for modeling purposes can be explored.

5. Alternative (Worst) Case Scenario

Kyle provided an overview of the Alternative (Worst) Case Scenario. The scenario places the most pronounced declines over the baseline scenario in years 2 and 3 of the Financial Plan.

Mike Paruszkiewicz asked how the worst-case scenario relates to the 2008 recession. Kyle O'Brien noted last time was a housing recession and it is unlikely the next downturn will be as severe and as directly related to construction activity. In the last recession, the declines were more severe than in any one year of the worst-case scenario; however, the scenario spreads the decline for the entire five year forecast period. Overall, the likelihood of a scenario as negative as the worst-case scenario is very small, but BDS plans in order to be prepared should a severe, prolonged downturn occur.

Overall, Committee members supported the proposed revenue growth rates and modeling methodology.

6. Finance Committee Report

Kyle noted that in past years, the FAC has submitted a letter to accompany BDS's 5-Year Financial Plan and inquired as to the committee's preference in how to draft the letter for this year. After discussion, FAC members asked Kyle and team to draft a report and circulate it to FAC members for review. BDS's 5-Year Financial Plan will be submitted to the City Budget Office on January 29, 2020.

7. Adjournment

Elshad and Rebecca expressed thanks to FAC members for their time and clear recommendations. This was the last scheduled FAC meeting for the FY 2020-21 budget process.

Meeting notes prepared by Kathy Lyndon and Ray Galinat (BDS).

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