



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

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BDS Financial Advisory Committee

Meeting Notes

Tuesday, January 5, 2021

FAC Members Present:

Jeff Renfro, Multnomah County
Josh Harwood, City of Portland Economist
Mike Paruszkiewicz, Northwest Natural
Mike Wilkerson, ECONorthwest
Paul Delsman, DRAC
Sean Green, DRAC
Tom Potiowsky, Portland State University

Non-City Staff Participants Present:

Amy Ruiz, Strategies 360
Michelle Plambeck, Strategies 360
Susan Steward, Building Owners & Managers Association
Ezra Hammer, Home Builders Association

City Staff Present:

Andy Peterson, Special Projects, BDS
Anthony Martin, Financial Analyst, Bureau of Environmental Services
Angela Butel, Financial Analyst, City Budget Office (CBO)
Beth Benton, Property Compliance Manager, BDS
Brenda Fahey, Technology & Continuous Improvement (TCI)/Recruitment & Training Manager, BDS
Brian Landoe, Analyst, Parks & Recreation
Chariti Montez, Commissioner Dan Ryan's Office
Deonte Hawthorne, Financial Analyst, Bureau of Environmental Services
Darryl Godsby, Commercial Inspections Services Manager, BDS
David Kuhnhausen, Permitting Services Manager, BDS
Dave Tebeau, Residential Inspections Services Manager, BDS
Doug Morgan, Plan Review Services Manager, BDS
Elisabeth Reese Cadigan, Manager, Bureau of Environmental Services
Elshad Hajiyevev, Deputy Director, BDS
Erin Mick, Engineering-Residential Development Manager, Water
Kathy Lyndon, Financial Analyst, BDS
Ken Ray, Public Information Officer, BDS
Kim Tallant, Land Use Services Manager, BDS
Kyle O'Brien, Budget & Finance Manager, BDS
Leesha Posey, Manager, BDS
Nate Takara, Deputy Fire Chief
Mike Johnson, Manager, PHB
Ray Galinat, Financial Analyst, BDS

Rebecca Esau, Bureau Director, BDS
Sarah Huggins, Analyst, Parks & Recreation
Sarah Wood, Planning, BPS
Tammy Croll, BDS Training & Workforce Development (Meeting Host)
Tyler Berry, Financial Analyst, PBOT

Handouts:

- Econometric Models
- Financial Plan Variable List
- Preliminary Programmatic Growth Rates
- 11-19-2020 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. FAC members made self-introductions.

11-19-20 Meeting Notes

Rebecca requested Committee members to review, comment and propose changes to the draft notes from the November 19, 2020 FAC meeting. The meeting notes were approved with no requested edits.

2. Meeting Overview

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

3. Expenditures

Elshad discussed expenditure cost saving measures and reminded committee members of the Safety Net Ordinance providing voluntary options which BDS made available to its workforce, implemented in the Fall of 2020—since then 14 employees voluntarily decided to retire or separate from the City and cost savings equivalent additional 4 FTE were achieved from furloughs, schedule reductions and other voluntary options. Overall, the response to the voluntary measures was very high in the Bureau; however, BDS is still facing revenue shortfalls based on economic conditions. In order to reduce the draw on reserves to a level which can be sustained through the downturn, reductions in the workforce will need to be made. The plan will be shared with bureau employees first.

In addition to cost saving measures, the BDS fleet was reduced by twelve City vehicles and BDS will continue to review costs. Also, BDS plans to vacate its space the Jacobs Building space when the lease expires. The City is currently contractually locked into the 6th and 10th floors of Jacobs Building lease until October 2022 and the 1st floor until October 2024.

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. Budget & Finance will be incorporating all cost savings measure changes, both one time and ongoing.

4. Preliminary 5-Year Revenue Growth Rates / Projections and changes in modeling

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.

The five-year forecast period is FY 21-22 to FY 25-26, beginning in July 1, 2021. The current year (FY 20-21) rates are based on actuals this fiscal year when compared to the previous year. These will be updated once December 2020 data is available. We are seeing declines across all programs, with the Environmental Soils Program as the solitary exception.

Base-Case Scenario

In general, the base-case scenario shows an initial decline across most programs the first year of the five-year forecast period, followed by revenue increases the second year and steady revenue growth rates in the final three years. These growth rates reflect the feedback provided at the November 2020 FAC meeting, in which the committee posited further declines in the next fiscal year due to lower demand for services and the uncertainty of large multi-family large, hotels and office space projects.

Land Use Services Case Reviews

A typical project at begins with a land use case reviews prior to the application of the building permit. Trade permits are typically last. Not all projects have a land use reviews, but many projects do. After project plans are reviewed and a construction permit is issued, they go through the inspections process.

The economic variables used to forecast land use services case reviews are affordability, the number of households, construction employment and a risk factor defined by the difference between long-term and short-term interest rates. The overall model fit is acceptable. The model produces a relatively small decrease in base revenue in FY 2021-22 followed by a strong rebound in FY 22-23 before growth rates return to single digits.

Jeff Renfro inquired what drives the 28% increase in Land Use Services Case Review revenue in FY 22-23. Kyle explained that the Land Use program has seen declines starting a couple years ago in FY 17-18. The denominator in the formula is quite low so the overall 28% increase makes sense if you consider the context. Land use reviews leads the development cycle so if we see a bounce back, it will manifest in this revenue source first. Mike Wilkerson with ECONorthwest recommended including historical levels in addition to the growth rates to provide additional context in subsequent years.

Building Program

The Building Program is the largest program at BDS. The variables are the number households, percent of loans which are past due, wages, mortgage origination valuations and a risk factor. The model was chosen because of its reasonable growth rates and past performance.

Trade Programs

Last year, the committee members recommended aggregating the trades for modeling. This is the first year BDS implemented this suggestion in its modeling process. BDS combined the trade programs (Electrical, Plumbing and Mechanical) because they are similar in size and the economic factors affecting each are similar. This year the trade program model is based on their close relationship to

the Building Program, with Building Program revenue being the explanatory variable. The coefficient produced indicates how sensitive the trade program revenues are to changes in the Building Program revenue. The coefficient is applied to the Building Program growth rates to achieve the growth rates for the trade programs.

Jeff Renfro was curious if using the coefficient for the trades model made sense when accounting for large project expectations. For example, a hotel would have more fixtures than your typical project. Kyle responded that the coefficient remains important for base revenue and that manual adjustments are made based on large project information. The coefficient indicates less volatility of the trade's programs compared to the building program. This aligns with the historical data and BDS's experience in the last recession.

Economic Outlook

BDS Budget & Finance Manager Kyle O'Brien gave a recap of the discussion items the committee members recommended in November 2020 asking if this advice was still accurate.

FAC members stated there were additional downside risks in November 2020 because there was uncertainty with unemployment benefits, stimulus, eviction moratoriums, etc. The extensions of unemployed and eviction moratoriums have mitigated those downside risks somewhat. The national economic perception of Portland has impacted our local economy—large scale developers are not viewing Portland as desirable due to the negative national media coverage. Mike Wilkerson noted that this lack of outside investment could be the largest impediment to economic growth in the City.

Ezra Hammer mentioned there should be more small-scale development opportunities with the residential infill project and roll out of the Clean Energy Funds for retrofits to existing buildings should begin soon. Kyle explained that small scale residential projects have lower cost recovery. Mike Wilkerson reiterated that the shift from large projects to smaller scale projects translates to lower BDS revenue.

To make large project adjustments, Mike Wilkerson recommended breaking down the large project activity by types—hotel (zero), office (close to zero), multi-family (based on historical trends comparison and then maybe reduce by 40%), institutional healthcare (OHSU) and education (school bonds). Once there is a large project breakdown based on category, it is easier to back into the historical data. Kyle noted that this is the approach BDS uses and the OHSU expansion project revenue is accounted for.

DRAC representative Paul Delsman pointed out that the American Institute of Architecture invoicing rates have been better than expected. This indicator is construction industry optimistic; however, Portland on the national level has a "black eye." Paul stated he expects his firm to remain busy in calendar year 2021 but conflicting forces make it difficult to accurately forecast.

Mike Wilkerson referenced the Urban Land Institute (ULI) for its annual emerging market trends report. Heading into calendar year 2019 Portland was ranked market #3 nationally. Heading into 2020, Portland dropped to #21, and now Portland is ranked #66 out of 80 markets. Institutional investors are weary of entering the Portland market currently. This could turnaround in the future; however, this may not happen for another 2-3 years. Overall market trends indicate Portland will not have a roaring return as experienced following the last recession.

BDS Director Rebecca Esau inquired about the duration of the economic downturn and if it is still

expected that the construction industry will recovery at the tail end of an overall economic recovery. Mike Wilkerson clarified we have not begun to see construction decreases yet. BDS earns its revenue prior to when a project enters the construction phase, so is leading the cycle. The construction industry remains busy and the decline is probably another 12-24 months out. The downturn will not resolve until at least 2022.

Rebecca also wanted to know if there have been case studies of other cities and doing comparison with other cities nationwide. Mike Wilkerson mentioned that there's not an exact parallel across the Northwest, but Boise (3-5 years ago) is comparable in that prior to their current boom there was no institutional funding. Once Boise was able to land one profitable project other developers followed suit. Boise was once 50th in the ULI list and is now in the 19th place. Tom Potiowsky added that Portland has seen a rapid fall that has only lasted one year, and the circumstances are different than potential case studies from other cities.

Rebecca Esau asked for final input from Amy Ruiz and Michelle Plambeck from Oregon Smart Growth Strategies 360. Amy stated investor confidence is a concern due to Portland specific political issues. There have been months of riots and the terrible national news coverage impacting investor confidence.

5. Alternative (Worst) Case Scenario

Kyle presented an alternative case and/or worst-case scenario showing an additional 7.5% reduction to the base model in FY 2021-22, followed by additional 5% decline in FY 2022-23, FY 2023-24, and FY 2024-25, and a 2.5% reduction in FY 2025-26. Mike Wilkerson advised extending the numbers of years with no growth instead of modeling a quick around with an across the board percentage reduction. Jeff Renfro added that this is not a true worst-case scenario as the current recession could end up extending for a longer period with a larger impact on BDS revenue. BDS will revise the scenario to incorporate this feedback and send to the committee.

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. FAC members preferred Kyle and team to draft a report and circulate to FAC members for review. BDS's 5-Year Financial Plan will be submitted to the City Budget Office on January 29, 2021.

7. Adjournment

Eshad, Kyle, and Rebecca expressed thanks to FAC members for their time and clear recommendations. This meeting is the last scheduled FAC meeting for the FY 2021-22 budget process.

Meeting notes prepared by Kathy Lyndon and Ray Galinat