

Analysis By: Christy Owen

BUREAU OF DEVELOPMENT SERVICES

All Funds Budget Summary	Adopted FY 2013-14	Request Base FY 2014-15	Decision Pkgs FY 2014-15	Request Total FY 2014-15	Percent Change
Resources					
Budgeted Beginning Fund Balance	\$13,177,485	\$24,572,155	\$0	\$24,572,155	86.5%
Licenses & Permits	22,854,164	26,830,114	0	26,830,114	17.4%
Charges for Services	8,909,147	10,734,211	0	10,734,211	20.5%
Interagency Revenue	929,161	894,353	0	894,353	-3.7%
Fund Transfers - Revenue	2,033,470	1,827,895	386,048	2,213,943	8.9%
Bond and Note Proceeds	1,802,343	0	0	0	-100.0%
Miscellaneous Sources	2,229,973	1,842,518	0	1,842,518	-17.4%
Total Resources	\$51,935,743	\$66,701,246	\$386,048	\$67,087,294	29.2%
Expenditures					
Personnel Services	\$25,189,551	\$25,387,287	\$1,928,220	\$27,315,507	8.4%
External Materials and Services	4,030,243	1,841,341	290,000	2,131,341	-47.1%
Internal Materials and Services	7,138,190	7,123,848	568,000	7,691,848	7.8%
Capital Outlay	0	1,495,649	0	1,495,649	N/A
Debt Service	1,009,670	982,638	0	982,638	-2.7%
Fund Transfers - Expense	947,890	1,213,322	0	1,213,322	28.0%
Contingency	8,620,199	13,657,161	(2,400,172)	11,256,989	30.6%
Unappropriated Fund Balance	5,000,000	15,000,000	0	15,000,000	200.0%
Total Requirements	\$51,935,743	\$66,701,246	\$386,048	\$67,087,294	29.2%
Total Bureau FTE	229.27	240.62	20.00	260.62	13.7%

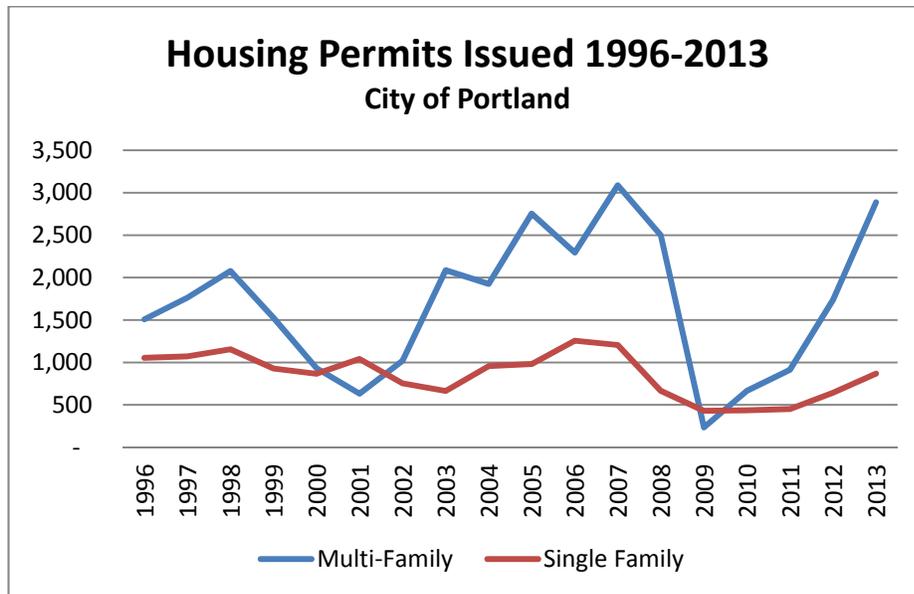
Percent Change is the change from FY 2013-14 Adopted Budget to FY 2014-15 Total Requested Budget.

Key Issues**Rebound in local construction economy / Impact on BDS workload and staffing**

Over the past five fiscal years, the Bureau of Development Services (BDS) has experienced significant fluctuations in revenues stemming from the economic downturn in the local construction industry. The results of the recession required the bureau to reduce staffing levels and spend a substantial portion of operating reserves in order to continue providing permitting, land use, and inspection services to the City of Portland. The recent growth in construction has brought back the demand for services that BDS provides. The FY 2014-15 Requested Budget continues to show local growth in the construction economy, and the five-year forecast provides for program revenues to sustain an additional 18.00 FTE to meet future workload demands. As such, BDS has requested 18.00 FTE in response to the economic growth patterns, which is reviewed in detail below.

Development of multi-family units is the primary driver for services and is leading the growth in revenue collections for the permit and inspection programs. The chart below, from the US Census Bureau, illustrates the influx of multi-family housing permits issued over time in the City of Portland. Multi-family housing permits include apartments, condominiums, townhouses, and duplex units. The number of multi-

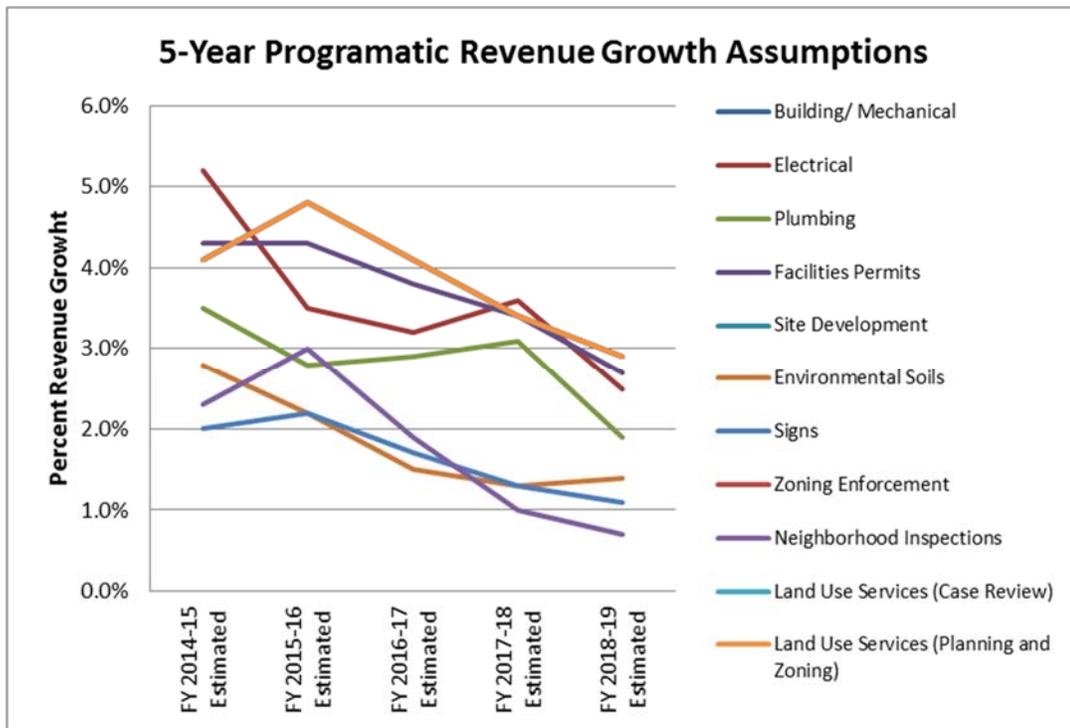
family permits, primarily for condominiums, declined sharply in 2008 as the local economy entered into the recession. Permits for multi-family units have been on the rise in the past three years with apartment construction leading the rebound from 2008. At present, the number of permits reported in 2013 is 7% less than the number of permits issued at the peak in 2007.



Permits issued are one indicator for the workload and staffing requirements at BDS. Revenues received from permits are not forecasted based on the quantity of permits expected, but the valuation of the project to be permitted. BDS uses a fiscally conservative approach to forecast the valuation, and large projects, such as the OHSU Facility on the South Waterfront, are not considered part of the base calculation. At present, BDS is experiencing both an increase in the quantity of permits issued and an increase in total project valuation when compared to the same point in the previous year. The growth in the local economy has allowed BDS to build rates for the next fiscal year that sustain proper reserve levels and add back direct service and indirect support positions.

Fee increases for services in FY 2014-15 are minimal. BDS proposes to retain the FY 2013-14 fee schedule with only one fee increase in the Environmental Soils program. The forecasted revenues allow the bureau to achieve reserve policy targets, fund the Information Technology Advancement Project (ITAP), project revenue growth, and meet required staffing levels for the next five-year period.

Starting in 2011, BDS established a formal process for preparing and reviewing the economic models and assumptions for program growth with a Financial Advisory Committee to evaluate the macroeconomic issues that affect both the Portland metropolitan region and identify economic factors unique to the City. Identified construction industry trends are subsequently incorporated into the BDS five-year forecast to determine the proper fee schedule. These schedules and revenue growth rates are reviewed by the Budget Advisory Committee (BAC) and the Development Review Advisory Committee (DRAC). The graph and chart below details the revenue growth assumptions and projected fee schedule changes over the next five years:



Programmatic Fee Changes	FY 2014-15 Estimated	FY 2015-16 Estimated	FY 2016-17 Estimated	FY 2017-18 Estimated	FY 2018-19 Estimated
Building/ Mechanical	-	-	-	-	-
Electrical	-	-	-	-	-
Plumbing	-	5.0%	4.0%	4.0%	4.0%
Facilities Permits	-	-	-	-	-
Site Development	-	-	-	-	-
Environmental Soils	10.0%	10.0%	10.0%	-	-
Signs	-	5.0%	4.0%	3.0%	3.0%
Zoning Enforcement	-	-	3.0%	3.0%	3.0%
Land Use Services	-	-	3.0%	3.0%	3.0%

The forecasted revenues by program indicate a slower growth over the next five years. This is consistent with the bureau's five-year forecast submitted in FY 2013-14. The programmatic reserves that BDS maintains are structured to address the revenue fluctuations inherent in the construction industry. The risk with the demand-driven services model is that if proactive measures are not taken to curtail spending in a localized recession, the staffing and service level reductions will occur much like in FY 2009-10. The construction growth rate can change quickly and the rate of reduction is equally as volatile. The bureau is essentially an economic indicator for the City due to the close tie to local development trends, and the bureau needs to respond in an economic downturn as in the same manner as the bureau does in a rebound. For this reason, CBO recommends the bureau continue the practice of working with the Finance

Advisory Committee, Budget Advisory Committee (BAC) and Development Revue Advisory Committee (DRAC) that have specialized knowledge in development trends and economic forecasting.

Information Technology Advancement Project (ITAP)

In July 2013, the Information Technology Advancement Project (ITAP) began with Phase I of the multi-year project to replace the current permitting system (TRACS). BDS has been planning to replace the current permitting system (TRACS) with a more robust permitting system that will allow for expanded services for the bureau and public. TRACS has been the permitting system since 1999 and in the past fifteen years technology has significantly changed, most notably in the mobile technology field. TRACS is at the end of its useful life and the bureau needs to have a modern permitting system. Key components of the ITAP project include bringing new technology to the operation, including infield access, an electronic automated system for plan submission, and review and permit issuance, and to transition historical bureau data to one centralized location. The bureau anticipates that the project would reduce future staffing needs by 9.00 FTE, potentially resulting in a savings of \$1.3 million. The FTE that would not be required in future years would likely be in: Land Use Services, Plan Review and Permitting Services, and Commercial and Residential Inspections.

Compared to the original project schedule, the start of ITAP implementation was delayed until FY 2013-14, the result of adjustments in project scope and securing a funding source. Current scope for ITAP is projected to cost \$11.8 million and come to completion in winter of FY 2015-16. As a result of the recession, internal resources were not sufficient to fund ITAP and issuing debt was the most viable funding option. As the economic conditions improved, BDS has been able to rebuild target levels. BDS has elected to forgo debt issuance, and finance the implementation from internal reserves. Currently the project budget is 19% spent with no draws on project contingency.

ITAP Budget Summary	Project Budget	Year-to-Date Spent	Remaining Budget	Percent Spent	Percent Remaining
Requirements					
Personnel Services & Project Management	\$2,518,199	\$214,034	\$2,304,165	8%	92%
Implementation Contracts	5,993,505	1,898,671	4,094,834	32%	68%
Supplies & Other Goods	558,833	2,654	556,179	0%	100%
Bureau of Technology Services	796,820	104,673	692,147	13%	87%
Contingency (20% of Project Total)	1,973,471	0	1,973,471	0%	100%
Total Requirements	\$11,840,828	\$2,220,032	\$9,620,796	19%	81%

The project officially began in July 2013 with Phase I. This phase focuses on business process mapping and the critical path development for meeting the project Go-Live date in the winter of FY 2014-15. The bureau hired a full-time project manager who reports on issues and progress to the Technology Oversight Committee (TOC) on a monthly basis. Currently, the project is within budget and reports to the TOC indicate that ITAP will be completed on time. The results of Phase I are in final review with the project team. There were delays in completing Phase I due to the vendor, Sierra Systems, changing the original project manager. This has required an additional six weeks to mitigate unresolved issues and get the

project back on the original timeline. Phase II is currently proceeding while Phase I is finishing. A formal project plan is scheduled for completion in March 2014.

Decision Package Analysis & Recommendations

Improve Overall BDS Service Level, DS_01 \$2,400,172, 18.0 FTE

Since FY 2012-13, BDS has begun adding back positions reduced during the economic recession. This package requests to restore services at the Development Services Center (DSC) to five days per week. Currently, the DSC is closed on Mondays and has partial services available to the public on Fridays. Approval of this package will add 18.0 FTE affecting the following programs: Residential Inspections, Enforcement programs, Land Use Services, Residential and Commercial Plan Review, and Administrative Support Services. The request also will increase interagency expenses for rental space, Bureau of Technology Services (BTS), fleet vehicles and other associated operating costs.

DS_01 Requested Position Detail

BDS Program	Position Title	FTE Requested
Land Use Services	Hearings Clerk	1
	Office Support Specialist II	1
	Planner I, City-Land Use	2
	Planner, Associate	2
Permit / Plan Processing	Development Services Technician I	2
	Development Services Technician II	1
Plan Review - Fire Life Safety	Plans Examiner, Commercial	1
Residential Combination	Combination Inspector	2
	Office Support Specialist II	1
Zoning	Planner, Sr City-Land Use	1
Code Compliance	Code Specialist II	1
Administration	Financial Analyst	1
	Program Coordinator	1
	Program Manager, Sr	1
DS_01 Requested Position Total		18

Reopening the DSC to five-day per week service is a priority for the bureau, the BAC, the bureau's Labor Management Committee (LMC), and the DRAC. The bureau also expects to improve the number of inspections completed within 24 hours from 88% to 95%. Overall customer service, such as having the ability to return phone calls within 24 hours also will improve. Code enforcement would be expected to increase enforcement fee collection by 20% resulting in the ability to resume two programs: the Disabled Vehicle on Private Property (DVPP) enforcement and the A-board inspection program that addresses large sign complaints.

The Land Use Service, Plan Review, Residential and Commercial Building Code Plan Review would also enhance services through the DSC. This is anticipated to shorten the number of days for requested reviews and to complete pre-issuance checks within two working days of the previous review by 10%.

In the Administrative Services program, the bureau would be able to implement a bureau-wide training program that was started before the recession, but was tabled. This will allow staff to proactively address the state-mandated training and certifications that are required of new and existing staff. This will also position the bureau to be able to address succession planning and workforce development as there have been a significant number of new hires in the past two years.

BDS experienced a reduction of workforce equating to 160 FTE in FY 2009-10, approximately 50% of the bureau's workforce. The positions were reduced as program revenues and reserves could no longer sustain supporting the associated expenses. Bureau initiatives, such as the strategic plan and succession planning were delayed due to the reduction in staffing levels. BDS's operating budget receives 5% of its funding from General Fund transfers and the remaining 95% from construction and permitting fees and interagency revenues. Current BDS financial policies and best practices allow for BDS to retain adequate program reserves to address the fluctuations in service requests related to the volatility in the local construction industry.

BDS has added back 56.1 FTE in the past two fiscal years to address the workload demands. To the extent that workload measures and projected revenues are supporting the positions there is little concern with supporting this request in the CBO. The concerns that CBO has are related to the bureau's ability to react as quickly to a downturn in the construction economy as the bureau has reacted when the demand for services is increasing. Under the current BDS staffing model, program reserves would be the first resource to address shortfalls; reduction in force is second should requests for services stagnate. CBO would expect to see reserves reduced to the targeted levels and then gradual position reductions occur. While reserves and positions were reduced during the previous economic downturn, this action did not occur until the region was deep into the recession.

CBO recommends that BDS work with the Bureau of Human Resources (BHR), their commissioner-in-charge, and the City Council to explore whether there are alternative staffing models that could help avoid the disruptive effect of laying off large numbers of permanent employees during the next recession. This review would need to take into account existing HR rules, as well as provisions in the current collective bargaining agreement. Such a staffing model could help reduce position volatility and also preserve BDS's operating reserves.

In March 2014, BDS requested and received a supplemental budget adjustment to add these positions and appropriation in advance of the summer construction season. The analysis included in this review is relevant to the 18 positions already approved, however this request is no longer needed and will be removed from further consideration.

CBO Recommendation: \$0, 0.0 FTE

Improve Housing and Nuisance Inspections, DS_02 \$85,800, 1.00 FTE

There are two decision packages in the Neighborhood Inspection Program that are requesting to convert one-time funded positions into ongoing positions. The first would convert General Fund one-time revenues to an ongoing resource for the Neighborhood Inspection program in BDS. This would provide resources for 1.0 Housing Inspector to address housing and nuisance complaints throughout the city.

In FY 2009-10, BDS reduced the number of Housing Inspectors funded by the General Fund from 8.0 to 2.0 FTE. Starting in FY 2011-12, BDS received General Fund resources on a one-time basis to fund a portion of the Neighborhood Inspection program. Gradually, the funding for the housing inspectors has been added back as ongoing General Fund resources for the program. Inspectors are responsible for enforcing minimum standards for maintenance of residential and non-residential structures. The program is not a 100% cost recovery program.

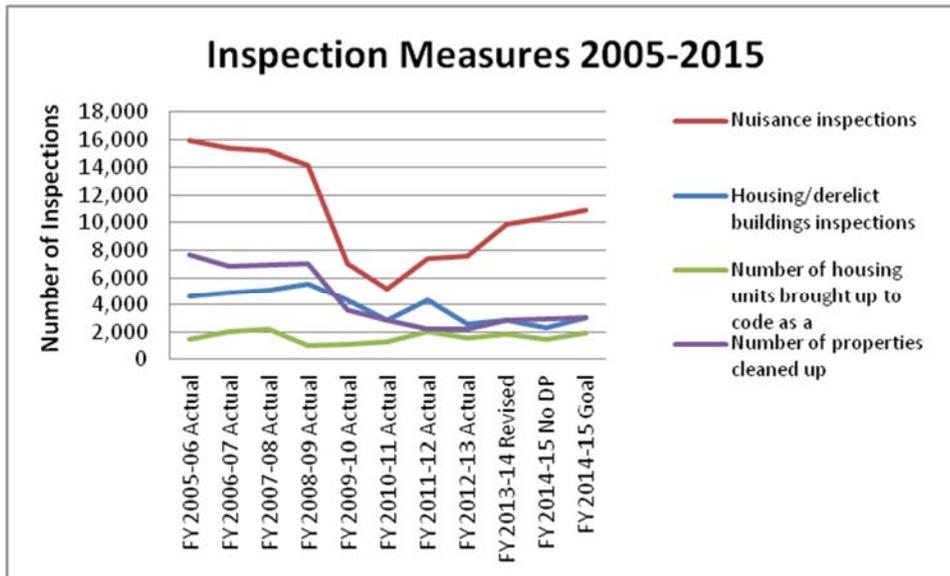
BDS’s expenses and revenues are collected by program. These programs are Building/Mechanical, Electrical, Plumbing, Facilities Permits, Site Development, Environmental Soils, Signs, Zoning, Neighborhood Inspections, and Land Use Services. Revenues collected for each program stay within that program. Programmatic revenues collected for state mandated programs (Building/Mechanical, Electrical, Plumbing, and Facilities Permits) cannot be used to fund other programs. Housing inspectors supporting NIT and EDPEP programs cannot be covered by revenues collected by state-mandated programs (ORS 455.210 (3)). Baring outside resources from specific fees for this service, the General Fund becomes the default funding source. The chart below illustrates that since 2011, this program has been partially supported by the General Fund. The FY 2013-14 budget converted some of the one-time funding to ongoing for 2.0 FTE, bringing the bureau total to 5.0 FTE supported by the General Fund. Approval of this package would convert resources for an additional Housing Inspector to the ongoing base that supports the program.

Fiscal Year	Other Revenues	Total GF Transfer	Total Revenue Budget	Percent of Revenue from GF
FY 2010-11 Adopted	\$ 543,002	\$ 384,392	\$ 927,394	41%
FY 2011-12 Adopted	\$ 1,856,163	\$ 1,290,770	\$ 3,146,933	41%
FY 2012-13 Adopted	\$ 1,567,503	\$ 888,039	\$ 2,455,542	36%
FY 2013-14 Adopted	\$ 1,837,727	\$ 856,836	\$ 2,694,563	32%
FY 2014-15 Requested with Decision Packages	\$ 1,694,881	\$ 1,160,983	\$ 2,855,864	41%

BDS Five-Year Financial Summary Report

The performance measures for the inspection program do indicate that there will be an increase in the number of completed nuisance and derelict building inspections and when compared to last year, the number of housing units brought up to code and properties cleaned up increased. Data reported over the past ten years shows that both the workload and the outcomes for nuisance and derelict inspections are

30% less than reported in FY 2005-06. This reduction corresponds with the decrease in FTE's supporting the program during the same time period. During this same time period, the program changed to focus on conducting more in-depth inspections, so the volume of inspections completed and number of units brought up to code are not completely comparable over this time period due to the change in services.



Despite the demonstrated success of the program providing outcomes consistent with pre-recession levels, the CBO does not recommend converting support for this position to ongoing funding nor does the CBO recommend continuing one-time funding. It is not consistent with City financial policies or best practice to use one-time funds for an ongoing program. To the extent that BDS cannot realign existing resources to fund this position as an ongoing position or fund one-time out of BDS reserves, the request should be tabled until adequate ongoing resources are available to support the program.

CBO Recommendation: \$0, 0.00 FTE

Extremely Distressed Properties Enforcement, DS_03, \$300,248, 1.00 FTE

This package requests \$100,248 in ongoing General Fund monies for a Sr. Housing Inspector to manage the Extremely Distressed Property Enforcement Program (EDPEP). The second part of the package requests \$200,000 in one-time monies for nuisance abatement. This program has been funded with one-time resources since the establishment of EDPEP in FY 2011-12. EDPEP is responsible for code enforcement with a specific focus on the following: abandoned/ foreclosed properties that are illegally occupied, properties that are occupied without basic utilities, and chronic recurring nuisance properties. BDS has requested one-time funding be converted to ongoing to address the Council Priority for complete neighborhoods.

Over the past two years the program has a successful track record with 25% of the total cases being completely resolved. There were 405 nuisance inspections completed during this same time period. BDS

works in tandem with the Portland Police Bureau (PPB) on properties with a public safety component, such as identifying vacant lots or derelict buildings where criminal activities are occurring.

Without continuation of General Fund resources, this program would cease to exist within the Neighborhood Inspections program. Existing Neighborhood Inspections program fines and penalties are not sufficient to cover the cost of this program and the primary focus of the work group is to address regular housing inspections. BDS has explored other revenue sources, such as increasing current fines or assessing new fees to support this program. However, many of the properties that are in this designation have fines and penalties that become liens against the property that may not be paid until the property is sold. The costs to conduct the inspection and abatement are immediate and the lien process is too far into the future and is likely to not yield the revenues that cover the expenses. To move to a different revenue model, or aggressively pursue liens as a program funding source would change this program focus from a shared benefit service model to strictly enforcement and collections model.

The second part of this request is for \$200,000 in one-time funds for the nuisance abatement program. The funds have been used for contracting out services such as demolitions of vacant derelict homes, and removals of illegally-occupied recreational vehicles that had been used to harbor criminal activities, excessive weed and vegetation removal, and removal of abandoned vehicles. In the past two years, 77 nuisance abatements and demolitions have been completed.

The EDPEP has demonstrated successful results and measurable outcomes. However due to a scarcity of General Fund resources available to support this program in an ongoing basis, the CBO does not recommend funding.

CBO Recommendation: \$0, 0.00 FTE

City of Portland
 Decision Package Recommendations
 (Includes Contingency and Ending Balance)

	Bureau Priority	Bureau Requested					CBO Analyst Recommendations				
		FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses	FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses
Bureau of Development Services											
<i>Key Priorities</i>											
DS_02 - Improve Housing and Nuisance Inspections	01	1.00	85,800	0	0	85,800	0.00	0	0	0	0
DS_03 - Extremely Distressed Properties Enforcemen	02	1.00	100,248	200,000	0	300,248	0.00	0	0	0	0
<i>Total Key Priorities</i>		<i>2.00</i>	<i>186,048</i>	<i>200,000</i>	<i>0</i>	<i>386,048</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Critical Needs</i>											
DS_01 - Improve Overall BDS Service Level	01	18.00	0	0	0	0	18.00	0	0	0	0
<i>Total Critical Needs</i>		<i>18.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>18.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Total Bureau of Development Services		20.00	186,048	200,000	0	386,048	18.00	0	0	0	0