

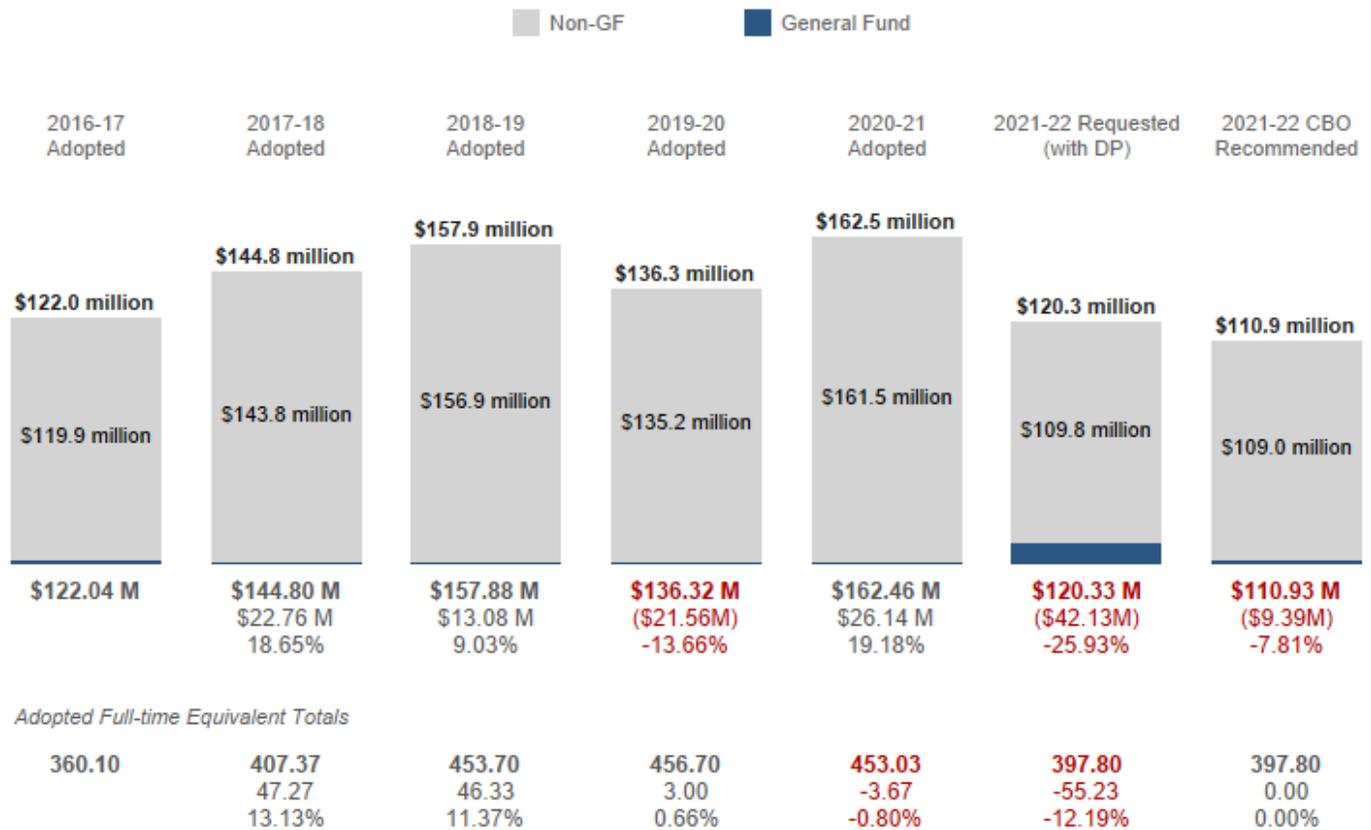


**City  
Budget  
Office**

# Bureau of Development Services

*Analysis by Angela Butel*

## Adopted Budget Revenues | 5-Year Lookback



## INTRODUCTION

The Bureau of Development Services (BDS) administers and enforces State building codes and local development codes to promote safety, livability, and economic vitality. The bureau’s budget relies on fee and permit revenues, which are highly sensitive to the ups and downs of the development cycle. The bureau is experiencing significant impacts of the economic downturn related to the pandemic and expects these impacts to last over several years. The FY 2021-22 Requested Budget reflects the bureau’s efforts to balance continued cost-containment strategies with sustaining staffing and service levels to position the bureau for economic recovery.

In keeping with these goals and with Mayoral guidance, this requested budget includes a number

of new requests for one-time General Fund resources. Given declining General Fund resources, CBO is not recommending most of these requests, but recommends that the City consider allocating anticipated additional federal relief dollars toward these requests. CBO's review:

- Recommends restoring the 5% reduction to the Neighborhood Inspections Program and adding \$1.0 million in one-time General Fund support for the program in FY 2021-22.
- Does not recommend General Fund one-time resources to create a new Community Engagement Specialist position to lead the bureau's community engagement work.
- Does not recommend \$6.7 million in General Fund one-time resources to maintain current staffing levels and add new positions to address a technology implementation backlog. While additional external resources would certainly be of benefit to the bureau and to local development in FY 2021-22, given limited availability of General Fund resources CBO recommends waiting for the release of federal resources through the American Rescue Plan, for which the rules and distribution is anticipated to be finalized this Spring.
- Does not recommend General Fund one-time resources to support continuity of operations in the Land Use Services Program and Signs Program, and similarly recommends considering allocation of American Rescue Plan funds for these programs.

## BASE BUDGET & KEY ISSUES

### Short-Term Financial Outlook and COVID Impacts

Over the last year, BDS has experienced significant revenue impacts due to the economic downturn related to the COVID-19 pandemic. As development activity has slowed, particularly for larger-scale projects such as hotels and office space, the bureau has drawn heavily on its reserves in order to meet its expense obligations. Although the bureau entered the downturn with healthy reserves, the current rate of draw—averaging about \$2 million in recent months—would exhaust the bureau's reserves by FY 2023-24 without additional action. BDS has taken steps to contain costs as much as possible, including freezing non-essential materials and services spending, maintaining a hiring freeze that was in place prior to the pandemic, and implementing the components of the Safety Net Ordinance passed by City Council in September 2020, which has resulted in 14 employees voluntarily severing employment with BDS.

In consultation with the bureau's Financial Advisory Committee, BDS is projecting FY 2021-22 to be the lowest point of the downturn for the bureau's revenues. BDS's Five-Year Financial Plan projects revenue declines between 12% and 14% for most of the bureau's programs in FY 2021-22 before revenues begin to recover starting in FY 2022-23.<sup>1</sup> In FY 2019-20 and FY 2020-21, BDS still received revenues from several large projects that were far enough along to continue moving forward after the pandemic began. Because BDS's fee revenues are related to the valuation of

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<sup>1</sup> The exceptions are the Land Use Case Review program, for which the bureau projects revenue declines of 4.4% in FY 2021-22, and three programs projecting slight revenue increases: Environmental Soils, Signs, and Neighborhood Inspections. For more detail, see the BDS Five-Year Financial Plan, Appendix B.

development projects, larger projects typically make up a significant portion of the bureau's revenues. The bureau does not anticipate new large projects launching before the economy begins to recover, leading to the projected revenue declines in the coming fiscal year.

During the FY 2008-09 recession, BDS also experienced sharp declines in revenue. During that recession the bureau spent down its reserves from \$13.9 million in FY 2007-08 to \$500,000 by FY 2009-10. BDS eventually had to lay off about 50% of its employees, leaving the bureau without enough staffing to manage even the reduced workload during the recession. Having fewer staff on hand also meant that BDS was challenged to meet increasing workload demands and when the local economy began to recover. Significant costs and time are associated with re-hiring and re-training employees after rounds of significant layoffs; thus, though it is part of BDS's model to scale staffing to workload with shifts in the development cycle, workforce reductions on the scale of the last recession are not an efficient strategy.

Since FY 2009-10, the bureau has taken steps to ensure more stable financial footing for the next downturn. The bureau increased its reserve goals, to 50% of annual operating costs for most programs and 75% for programs with greater revenue volatility.<sup>2</sup> During several years of strong development activity beginning in 2012, BDS built up its reserves, reaching a peak of \$91.7 million in FY 2017-18. As of its FY 2020-21 requested budget submission, BDS was projecting that seven of its 11 programs would reach their reserve goals by the end of FY 2020-21. In addition to building up these reserves, the bureau's business continuity plan tracks early indicators of changes in development activity and outlines steps the bureau should take when certain conditions are met. This is why, for example, the bureau had already instituted a hiring freeze before the pandemic began, in response to a development downturn that began in FY 2017-18.

Because of these prudent steps, the bureau does not anticipate similarly drastic operational impacts in the current recession. The bureau's financial plan assumes a 72.0 FTE reduction in workforce across the five years of the plan, including the 14 employees who have already voluntarily severed employment and 13 layoffs announced at the end of January 2021. This represents approximately an 18% reduction from current-year staffing levels. BDS anticipates being able to manage this level of reduction across the five-year plan while continuing to maintain service levels to a higher degree than in the last recession. Additional discussion of the potential impacts of workforce reductions on recovery from the recession is in the section below.

Based on the current best information about the length of the downturn and shape of the recovery, and factoring in these moderate staffing reductions as well as 5% annual fee increases across most programs<sup>3</sup> in each year of the forecast, BDS projects to draw down its aggregate bureau-wide reserve to a low point of \$9.4 million in FY 2024-25 before adding to it slightly in FY 2025-26. The state-mandated building programs that BDS manages are projected to perform better than the local building programs, with most projected to begin adding to their reserves by

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<sup>2</sup> Programs with 75% reserve goals are the Building/Mechanical Program, Environmental Soils, Signs, and Land Use Services.

<sup>3</sup> The one exception is the Zoning Enforcement program, for which BDS is not projecting any fee increases over the 5-year forecast. Though this program is projected to draw on its reserves in each of the five years of the forecast, it is still projected to maintain a reserve balance of \$1.1 million by FY 2025-26.

the last year of the forecast and all projected to maintain a positive reserve balance for at least part of the forecast period.<sup>4</sup> Of the local building programs, four out of six are projected to draw on their reserves in all five years of the forecast; two, the Signs Program and Neighborhood Inspections, are projecting negative reserve balances even by the final year of the forecast.

Program	Program Type	Adds to reserve in 5-year forecast?	Maintains positive reserve balance?
Building/Mechanical	State	No	Yes, all five years
Electrical	State	Yes, in FY 2025-26	Yes, all five years
Plumbing	State	Yes, in FY 2025-26	Yes, all five years
Field Issuance	State	Yes, in FY 2022-23, FY 2023-24, FY 2024-25, FY 2025-26	Starting in FY 2024-25
Facilities Permits	State	Yes, in FY 2025-26	Yes, all five years
Site Development	Local	No	Yes, all five years
Environmental Soils	Local	Yes, all five years	Starting in FY 2022-23
Signs	Local	No	No
Zoning Enforcement	Local	No	Yes, all five years
Land Use Services	Local	Yes, in FY 2025-26	Negative in FY 2023-24 and FY 2024-25
Neighborhood Inspections	Local	No	Negative after FY 2022-23

## Preparing to Boost the Economic Recovery

While weathering the immediate- and near-term impacts of the economic downturn, BDS is also working to remain primed to support the region’s economic recovery once development activity picks up. This involves developing sound, predictable, and timely processes for providing services to customers and staffing the bureau appropriately to meet shifting workload demands.

In terms of the bureau’s processes, the sudden shift to remote work during the pandemic created operational challenges. To manage in the remote work environment, the bureau had to put some interim processes in place, such as a new appointment-scheduling system, which created delays with moving projects through the development review pipeline. BDS staff have been working with the Development Review Advisory Committee (DRAC) and other bureau advisory bodies to improve these processes and facilitate faster review timelines wherever possible.

At the same time, the bureau continues work on longer-term process improvement efforts. As of August 2020, all core components of the Portland Online Permitting System (POPS) project are live, allowing the bureau to shift focus to adding functionality and improving automation with the goal of making processes more digital and easier to navigate for bureau customers. BDS anticipates needing to complete a significant amount of this work in FY 2021-22 and requests additional staff capacity in this area as part of the Technology and Bridge Funding decision package. Ensuring that processes are running smoothly will be one key piece of making sure the

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<sup>4</sup> Because BDS operates with a single fund, individual programs may operate with reserve deficits for a period of time while BDS takes measures to address both program revenues and expenditures to achieve fiscal stability.

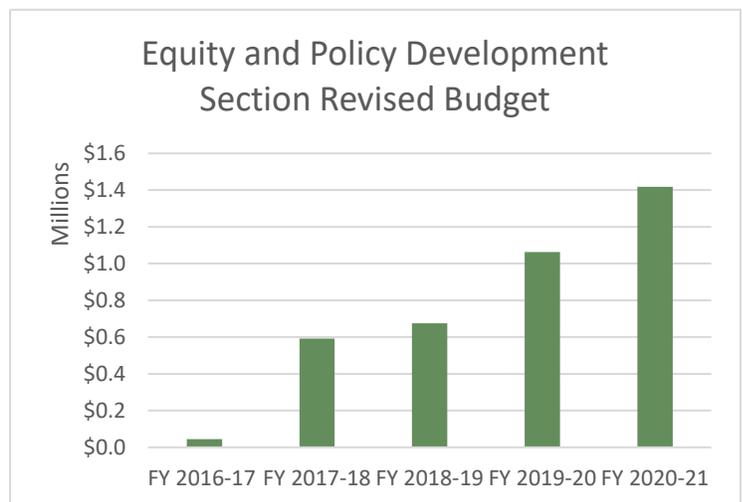
bureau is poised to support economic recovery.

The bureau is also striving to ensure they are adequately staffed to support development activity when it begins to increase. If the bureau reduces staff capacity too much during an economic downturn, it creates difficulty in responding to increases in development activity when the demand for service returns. This is the reasoning for BDS's General Fund requests in this requested budget: by slowing the bureau's draw on its reserves in FY 2021-22, these resources would allow the bureau to maintain a higher level of staffing going into the beginning of the economic recovery, currently anticipated in FY 2022-23. CBO's analysis and recommendation on this decision point is discussed in the decision package section of this review.

## Strategic Investments in Equity

The BDS Equity and Policy Development Section is tasked with implementing the bureau's Five-Year Racial Equity Plan. The team works with staff from across bureau programs to apply an equity lens to the bureau's work, including through promoting equity in recruitment and hiring processes, in contracting, through training of BDS staff, and through community outreach and education. This section also includes the Empowered Communities Program, which provides focused support for Black people, Indigenous people, people of color, and people with disabilities in navigating zoning, development, and permitting requirements.

Even as the bureau as a whole faced the need to contain costs in recent years, BDS has continued making strategic investments in equity work. The Equity and Policy Development Section's revised budget has grown in each of the last five years, increasing by \$0.8 million, or 140%, from FY 2017-18 to FY 2020-21. A commitment to continuing to invest in this area is reflected in the bureau's strategic direction and supported by the Budget Advisory Committee Report and priorities of other bureau advisory bodies.



Quantitative measurement of the impacts of these investments has proven challenging. BDS has not historically collected demographic information about its customers; there are compelling privacy, security, and trust-building reasons not to do so. However, this means that although the bureau tracks a robust suite of performance measures, it cannot disaggregate outcomes by demographic to understand how its policies and practices affect different groups differently. BDS is exploring options such as anonymous surveys to gather data about customers' experience with the bureau. The bureau also plans in the next year to hire a 1.0 FTE data analyst position that will focus on equity-related data, aiming to increase the bureau's capacity for this work.

This is crucial work which the bureau continues to prioritize even in the midst of significant budgetary challenges. As this work expands, CBO encourages the bureau to continue pushing

forward a dual focus on both tailoring support to historically underserved communities in navigating City systems and on making those systems more responsive and easier to navigate for everyone. Resources and support focused on particular communities, such as the Empowered Communities Program, are key; so are continued efforts to suffuse the expertise of Equity and Policy Development across the bureau to transform operations across program areas.

## DECISION PACKAGES

### Required 5% Reduction

*11422, (\$51,596), 0.00 FTE*

#### Request Summary

BDS's required 5% General Fund reduction comes from the Neighborhood Inspections Program, which is the only BDS program that receives General Fund support. This reduction in resources would mean fewer funds available for rental inspections and nuisance abatements in FY 2021-22.

#### CBO Analysis

The Neighborhood Inspections Program enforces minimum standards for residential structures and exterior maintenance requirements for non-residential properties, and addresses nuisance complaints in outdoor areas and adjacent rights-of-way. According to the program's performance measures it completed 2,513 housing inspections in FY 2019-20 and cleaned up 1,799 properties.

The program is intended to address health and safety hazards for residential tenants and overall neighborhood livability concerns throughout the City. The program has taken steps to increase equity impacts in recent years, including establishing the Enhanced Rental Inspection Program, which identifies additional rental units to inspect when an initial inspection finds substantial code violations. Staff are also reviewing older cases to identify negative impacts for elders, disabled people, and people of color to inform process improvements moving forward.

General Fund support for the program relates directly to its interface with equity. Because code violations often arise due to a property owner's own financial situation, the program seeks to achieve compliance before charging a fee or penalty. The program is successful at this, averaging correction of 90% of violations before a fee or penalty is assessed; however, this means that 90% of violations are not bringing revenue to support the program. A reduction to its General Fund revenue means either the program must reduce its level of enforcement activity, leaving more health, safety, and nuisance conditions unaddressed, or assess more or higher fees and penalties, negatively impacting property owners who in many cases are already struggling financially.

As mentioned above, Neighborhood Inspections is BDS's only program receiving General Fund revenue, and thus the only source for the 5% reduction. BDS is requesting add-back of this reduction. Further discussion of the potential impacts of loss of these resources for the program is included in the analysis of the add-back decision package below.

**Total Constraint: (\$51,596 ongoing) | 0.00 FTE**

# Neighborhood Inspections Program General Fund Request

11424, \$1,000,000, 0.00 FTE

## Request Summary

This request is for \$1.0 million in one-time General Fund resources to support the Neighborhood Inspections Program. These resources would eliminate the program's projected draw on its reserves in FY 2021-22, allowing the program to maintain staffing and service levels.

## CBO Analysis

As described in the analysis above, the Neighborhood Inspections program faces challenges to achieving cost recovery through fees and penalties alone because it seeks to achieve compliance with code requirements before charging a fee or penalty. For this reason, the program has historically received some amount of General Fund resources, which over the past several years has made up between 20% and 30% of the program's total revenues.

Since the FY 2008-09 recession, Neighborhood Inspections has achieved cost recovery through program revenues alone (not factoring in General Fund resources) in only one year, FY 2015-16. However, including General Fund resources the program achieved cost recovery in each year between FY 2014-15 and FY 2016-17, and built up a reserve balance of \$4.4 million by FY 2016-17. Program revenues and General Fund support for the program have both decreased since then, and the program has drawn on its reserves in each year since FY 2016-17.

Without additional one-time General Fund support, the program projects to exhaust its reserves in FY 2022-23, entering a reserve deficit that is projected to grow through each remaining year of the forecast.<sup>5</sup> Five-year projections, factoring in annual fee increases of 5%, have revenues holding at around 60% of costs and, assuming an even level of General Fund support, show a steady gap of between \$0.7 million and \$0.8 million per year between costs and total revenues.

The one-time resources in this request would eliminate the program's draw on its reserves for FY 2021-22, leaving the program with a projected FY 2021-22 year-end balance of about \$1.3 million and delaying the program's entry into a reserve deficit to FY 2023-24.<sup>6</sup> Though this one-time infusion of resources would keep the program on better financial footing over the coming years, it does not resolve the underlying conflict between reliance on fine and penalty revenue and the mission of the program. As noted above, the program had drawn on its reserves for three fiscal years before the onset of the COVID crisis. In the FY 2020-21 budget review, CBO advised BDS "to closely monitor the financial adequacy of the program...and as needed, highlight the expected service trade-offs to Council and develop additional mitigation strategies for Council's input."<sup>7</sup>

As described above, this program is intended to address health and safety hazards for residential tenants and overall neighborhood livability concerns throughout the city. After seeing lower

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<sup>5</sup> Because BDS operates with a single fund, individual programs may operate with reserve deficits for a period of time while BDS takes measures to address both program revenues and expenditures to achieve fiscal stability.

<sup>6</sup> BDS notes that, if anything changed about its revenues or expenditures for FY 2021-22 (for example, receiving one-time General Fund support), the bureau would recalculate its financial projections, so some projection assumptions may shift.

<sup>7</sup> City Budget Office, FY 2020-21 BDS Budget Review, page 8. <https://www.portlandoregon.gov/cbo/article/754848>

demand for residential inspections at the start of the pandemic as tenants had heightened concerns about housing stability, in the first quarter of FY 2020-21 BDS has seen demand increase and anticipates this continuing into FY 2021-22. While CBO has concerns around the long-term sustainability of the current program and funding model, CBO also finds the need to address health and safety hazards particularly salient during the current pandemic and housing crisis. Given the difficulty this program would face addressing a sizeable reserve deficit even as BDS's overall revenues begin to recover and given the nexus between this program's work and healthy, safe, affordable housing for Portlanders, CBO recommends this request. CBO recommends that Council consider a Budget Note directing assessment of the level of General Fund subsidy needed to sustainably support the level of service Council desires for this program.

**CBO Recommendation: \$0 ongoing | \$1.0 million one-time | 0.00 FTE**

## Community Engagement Position

*11425, \$187,985, 1.00 FTE*

### Request Summary

This request is for \$187,985 in one-time General Fund resources to fund a new Community Engagement Specialist position. This position would lead the bureau's community engagement efforts with a goal of ensuring the bureau's programs and services meet the needs of Black people, Indigenous people, people of color, and people with disabilities.

### CBO Analysis

BDS's Equity and Policy Development and Communications section includes 17.0 FTE, 9.0 FTE for Equity and Policy Development and 8.0 FTE for communications. As discussed above, this section has grown significantly in recent years. As it has evolved, the team has identified a need for more sustained and in-depth engagement of historically and currently underserved communities to center their needs and feedback in development of bureau programs, services, and policies.

The bureau has taken steps to expand outreach and engagement efforts over the past several fiscal years, including partnering with community organizations on listening sessions with BIPOC small business owners; developing ongoing partnerships with community organizations and businesses to assist BIPOC clients with projects; and supporting recruitment of diverse candidates for City advisory boards and commissions. Many of these efforts were led in FY 2019-20 by an Outreach and Information Representative position in the Empowered Communities Program, a position which is vacant as of this writing.

City financial policy 2.04 states that one-time funds "should be used for one-time programs and projects with a defined end date, bridge funding, or to address citywide liabilities that are not included in the City's five-year forecast."<sup>8</sup> Development and implementation of a bureau-wide strategy for community engagement is long-term work that will require sustained support. Given BDS's overall financial situation, the bureau would be challenged to absorb the costs of this

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<sup>8</sup> The full policy can be found here: <https://www.portlandoregon.gov/citycode/article/200795>

position after the first year if General Fund support were not renewed, and BDS notes that it may bring forward future General Fund requests to support this position.

In addition to concerns about using one-time resources to fund ongoing work, CBO has questions about funding this work with General Fund resources. The BDS financial model provides that, for the most part, customers pay fees to cover the costs of the services BDS provides to them. Acknowledging that there are very real challenges to doing so in the next year given the state of the economy, CBO recommends that BDS continue to ensure that its fee schedule factors in the costs of removing barriers and improving provision of services to customers whose needs are not met by current processes.

Due to the ongoing nature of this work and potential for additional future General Fund impact, CBO does not recommend one-time resources for this request.

**CBO Recommendation: \$0 ongoing | \$0 one-time | 0.00 FTE**

## **BDS Technology and Bridge Funding**

*11429, \$6,659,743, 0.00 FTE*

### **Request Summary**

This request is for \$6.7 million in one-time General Fund resources to support BDS in maintaining continuity of operations during the economic downturn. These resources would allow the bureau to avoid layoffs of 26.0 FTE and would support an additional 7.0 FTE, for which the bureau would repurpose existing vacant positions, to address a technology implementation backlog.

### **CBO Analysis**

This request aims to allow BDS to maintain current levels of staffing through FY 2021-22 and to accelerate technology implementation so the bureau is poised to respond to eventual economic recovery. BDS's current five-year projections suggest that FY 2021-22 will be the worst year of the economic downturn for the development industry. By protecting 26.0 FTE from layoffs and adding 7.0 FTE in technology and continuous improvement capacity, the bureau aims to have more skilled, trained staff on hand and more efficient, user-friendly processes in place to support the projected uptick in development activity beginning in FY 2022-23.

Of the full request, \$5.2 million is related to avoiding layoffs of 26.0 FTE. Without additional resources, the bureau projects needing to make this reduction in spring of FY 2020-21. Although BDS has not yet identified where workforce reductions would be made, the bureau anticipates impact being widespread across workgroups. Staff reductions would negatively affect turnaround times and other level-of-service measures, as well as reducing the bureau's capacity for ongoing process improvement work needed to improve the quality and timeliness of service delivery. The bureau also notes that, due to bargaining agreements, staff reductions must be made largely based on seniority. This hinders the bureau's efforts to retain a diverse workforce, as the bureau's employees of color on the whole tend to have less seniority. This is a serious concern not only for the current downturn but moving forward, as BDS's model is premised on making periodic staffing reductions in alignment with workload demands. This must be a priority for the

City to address in future contract negotiations with employee bargaining units.

CBO analysis finds that the requested one-time infusion of General Fund resources is likely not sufficient to sustain the additional costs of 26.0 FTE throughout the five years of the forecast. Although the bureau currently projects revenues beginning to increase starting in FY 2022-23, revenues are projected to remain insufficient to cover costs—even with layoffs factored in—until FY 2025-26. If the other assumptions in the projections remained constant, a one-time infusion of General Fund resources in FY 2021-22 and the ongoing added costs of 26.0 FTE additional positions would exhaust the bureau’s reserves by FY 2024-25.<sup>9</sup>

This means that, under current projections, the request alone would not provide a sufficient funding bridge for the bureau to sustain proposed staffing levels; however, it would help slow the bureau’s draw on reserves and allow more time to adapt to the developing economic situation.

The remainder of the request, \$1.5 million, would add seven positions to: increase bureau capacity for coordination with interagency partners, vendors, and the Bureau of Technology Services; enhance project management across technology workstreams; shorten project timelines; implement process improvements to the permitting process; improve performance reporting tools to inform process improvements; and implement a digital equity plan for community-facing technology and process improvement projects.

While some of this work is new and forward-looking, the bureau is also trying to solve a backlog developed during the system migration as the AMANDA platform was updated, and address the need to implement portions of projects faster than planned due to COVID-19. Three of the seven positions in this request would help accelerate resolution of this backlog, speeding up implementation by an estimated 3 weeks for smaller projects and 4-6 weeks for larger projects. They would also assist with training development, communication, and change management.

Current projections show that one-time General Fund support for only this portion of the request would allow the bureau to absorb these additional costs without running out of reserves by the end of the five-year forecast, although at no point in the forecast would the bureau be able to begin rebuilding its reserves. There is potential for the bureau to absorb the cost of at least some of these positions within its current projection model.

Clearly, there would be positive impacts of protecting 26 jobs, maintaining staffing in preparation for economic recovery, and accelerating technology implementation. However, the City is operating with a deficit of General Fund resources, and any added support for BDS requires reductions elsewhere in the City. Moreover, based on BDS’s current projections, it does not appear that this request would truly bridge BDS past the need to make workforce reductions in future years. Given current BDS projections, CBO estimates that a one-time subsidy may need to be closer to \$30 million to fully sustain the cost of 33 additional positions through the duration of the economic downturn and recovery over the next five years. As this level of General Fund

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<sup>9</sup> BDS notes that, if anything changed about its revenues or expenditures for FY 2021-22 (for example, receiving one-time General Fund support), the bureau would recalculate all of its financial projections. This point should not be considered an exact calculation but a rough estimate of the potential need for additional future action.

resource is not available, making some staffing reductions now would position the bureau to be able to gradually add positions back in accordance with observed increases in workload instead of needing to reduce staffing in future years as workload begins to increase.

Under the Federal American Recovery Plan's current draft language, this request would likely be eligible for future federal stimulus funding, for which the rules and distribution are anticipated to be finalized this Spring. Due to limited available General Fund resources, CBO does not recommend General Fund support for this proposal; however, CBO would recommend allocating American Rescue Plan resources toward this request once the rules and funding are finalized.

**CBO Recommendation: \$0 ongoing | \$0 one-time | 0.00 FTE**

## Empowered Communities Program

*11426, \$875,168, 0.00 FTE*

### Request Summary

This request is for \$875,168 in one-time Recreational Cannabis Tax (RCT) resources to support the Empowered Communities Program, which provides focused support for Black people, Indigenous people, people of color, and people with disabilities in navigating zoning, development, and permitting requirements. These resources would support the existing 3.0 FTE in the program along with an additional 2.0 FTE that BDS would reclassify from existing vacancies. CBO is conferring with the City Attorney's Office to confirm whether all parts of this request fit within the eligible expense guidelines for RCT funds.

### CBO Analysis

The goal of the Empowered Communities program is to provide focused support for Black people, Indigenous people, people of color, and/or people with disabilities in navigating the permitting and review processes. This is the first time BDS has requested RCT funds for this program, and CBO is conferring with the City Attorney's Office to confirm whether all parts of this request fit within the eligible expense guidelines as approved by voters.<sup>10</sup> The most relevant portion of the eligible expense guidelines is for "support for neighborhood small businesses"; while portions of this request are narrowly and directly focused on small business support, other portions appear to include broader support for BIPOC customers and customers with disabilities, including those who are homeowners or nonprofit organizations.

The program is currently made up of 3.0 FTE, each of whom manages a specific sub-program:

- The Small Business Empowerment Program assists aspiring or current small business owners with navigating the development review process for new spaces or with permitting changes to their existing physical spaces.
- The Arts Empowerment Program assists artists and arts organizations with navigating

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<sup>10</sup> These eligible expense guidelines are outlined in City Council Resolution 37217, adopted in June 2016: <https://www.portlandoregon.gov/auditor/article/581607>

permitting processes.

- The Empowering Neighborhoods Program assists clients with resolving issues with building and zoning code violations on their properties.

The program serves an average of 57 customers per year through these three programs. Demand for these services exceeds the program's capacity with current staffing levels and resources.

This request proposes to support the existing 3.0 FTE with RCT resources in FY 2021-22 and to add 2.0 FTE in additional support for the program. The two new proposed positions would be:

- 1.0 FTE for Ownership Resources and Education, which would support residential property owners, including those seeking to run home-based businesses, with planning and development for construction projects on their properties. This position would also support residential property owners who have performed work without permits to seek resolution before engaging with the Code Compliance Program and would support BIPOC cannabis industry customers with permitting for construction projects.
- 1.0 FTE for the Solar Program, which would partner with the Portland Clean Energy Fund (PCEF) to assist property owners and contractors in attaining permits for solar panel installation and other weatherization projects.

With this expansion of 2.0 FTE, the program anticipates being able to serve an additional 100-150 clients per year through the Empowered Communities Program.

BDS states that should these one-time resources not be renewed for future years, the bureau would support the ongoing work of this program through bureau resources (as it does currently for the existing 3.0 FTE). CBO notes that, while supporting the three existing positions through RCT resources for even one year would have a positive effect on BDS's overall financial situation by reducing the bureau's draw on reserves in FY 2021-22, expanding the program by 2.0 FTE could have negative future-year impacts for the bureau's finances by increasing the bureau's costs if RCT resources are not renewed.

CBO also notes that, because one of the positions the program proposes to add has a direct interface with PCEF, the possibility exists for that position to be funded in a more ongoing way through an interagency agreement with the Bureau of Planning and Sustainability.

Recreational Cannabis Funds are managed separately from the General Fund and allocations must adhere to eligible expense guidelines. Allocation options of Cannabis Fund resources will be discussed by the Council at a budget work session on April 1<sup>st</sup>.

## **Add-back of 5% Reduction to Neighborhood Inspections Program**

*11423, \$51,596, 0.00 FTE*

### **Request Summary**

This request adds back the \$51,596 required reduction to the Neighborhood Inspections Program. These resources would allow BDS to complete additional rental inspections and

nuisance abatements in FY 2021-22.

### **CBO Analysis**

BDS estimates that a reduction of \$51,596 in General Fund resources for Neighborhood Inspections would mean the equivalent of either 53 fewer housing inspections or 79 fewer nuisance inspections in FY 2021-22. In addition, due to the cumulative effects of General Fund reductions in recent years and the program's current financial outlook, BDS anticipates potentially needing to reduce staffing of by 0.5 FTE in FY 2021-22 to absorb this reduction.

Demand for Neighborhood Inspections services is largely complaint-driven, and in FY 2020-21 BDS is seeing lower numbers of complaints than in the prior year. While the bureau anticipates demand remaining below previous levels into FY 2021-22, data from the second quarter of FY 2020-21 suggests that demand for these services is beginning to gradually increase again. With lower General Fund resources; staff reductions from Safety Net retirements, layoffs, and natural attrition; and the bureau-wide hiring freeze preventing increase of staffing levels, the program has concerns about being able to meet an increasing level of demand in FY 2021-22.

Additional detail on the program's financial situation is shared in the analysis of the "Neighborhood Inspections Program General Fund Request" decision package above. CBO recommends adding these resources back on an ongoing basis to avoid gradual erosion of the program's ability to address health and safety concerns without adding to the financial burden property owners are facing. However, as CBO is also recommending the program's one-time request for FY 2021-22, CBO recommends making this 5% reduction on a one-time basis to prioritize resources for other urgent needs in the coming year.

**CBO Recommendation: \$51,596 ongoing | (\$51,596) one-time | 0.00 FTE**

### **Land Use Services General Fund Request**

*11427, \$1,200,000, 0.00 FTE*

#### **Request Summary**

This request is for \$1.2 million in one-time General Fund resources to support the Land Use Services Program (LUS), which administers the Portland Zoning Code. These resources would allow the program to reduce the draw on its reserves and to maintain staffing levels needed to provide timely services now and as the economy begins to move into recovery.

#### **CBO Analysis**

Land Use Services administers the Portland Zoning Code, which guides and limits development in Portland to meet the goals of the City's Comprehensive Plan. In addition, the program reviews development proposals for compliance with the Zoning Code and other codes and provides public information regarding zoning regulations. Land use reviews happen near the beginning of the development process, making it particularly important that this program provide timely services in order not to negatively affect downstream permitting processes and project timelines.

In the past, this program received ongoing General Fund resources, but this funding ended in FY

2017-18. In that year and the following, the program did not achieve cost recovery, although it did so in FY 2019-20. BDS notes that the program sometimes struggles to achieve cost recovery as many of its functions—responding to phone calls from the public, consulting on zoning-related work with other City bureaus, reviewing code changes— are indirect business functions and do not bring in fee revenue. In 2005, Council enacted the Development Services Fee to help fund these types of services, and since then the program’s cost recovery has generally been higher.

Over the post-Great Recession years of increased development activity, LUS built significant reserves, reaching a peak of \$12.5 million in FY 2016-17. The program has drawn on its reserves in several years since FY 2016-17, and projects to end FY 2020-21 with just over \$6 million in reserves. Over the five-year forecast, the program is projected to continue drawing on its reserves in the first three years, and projects a reserve deficit in FY 2023-24 and FY 2024-25.<sup>11</sup> However, after factoring in the recovery of revenues to begin in FY 2022-23 and projected 5% fee increases in each year of the forecast, the program is projected to achieve cost recovery beginning in FY 2024-25 and begin rebuilding its reserves in FY 2025-26.

This request would reduce, though not eliminate, the program’s draw on its reserves for FY 2021-22. BDS states that this level of reduced draw on reserves would allow the bureau to maintain staffing needed to sustain current levels of service. Without additional resources, the program may face reduction in staffing. Similar to the bureau-wide Technology and Bridge Funding request analyzed above, a one-time infusion of General Fund resources used to sustain higher staffing levels (and thus higher costs) seems likely to leave the program facing significant reserve deficits or the need to pursue staffing reductions or additional resources in future years.

Under the Federal American Recovery Plan’s current draft language, this request would likely be eligible for future federal stimulus funding, for which the rules and distribution are anticipated to be finalized this Spring. Due to limited available General Fund resources, CBO does not recommend General Fund support for this proposal; however, CBO would recommend allocating American Rescue Plan resources toward this request once the rules and funding are finalized.

**CBO Recommendation: \$0 ongoing | \$0 one-time | 0.00 FTE**

## Signs Program General Fund Request

*11428, \$420,000, 0.00 FTE*

### Request Summary

This request is for \$420,000 in one-time General Fund resources to support the Signs Program, which administers the requirements of the Signs and Related Regulations Code. These resources would allow for continuity of operations for this program while avoiding the need for significant fee increases or suspension of all or parts of the program.

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<sup>11</sup> Because BDS operates with a single fund, individual programs may operate with reserve deficits for a period of time while BDS takes measures to address both program revenues and expenditures to achieve fiscal stability.

## CBO Analysis

BDS's Signs Program administers the Signs and Related Regulations Code, which ensures that signs and awnings are constructed to protect life, health, property, and public welfare. The program has not achieved cost recovery since FY 2017-18 and has run a reserve deficit in each year since then, projecting to end FY 2021-22 with a deficit of \$418,599. In fact, while the program has more often than not achieved cost recovery since FY 2002-03, it has never met its reserve goal and has operated with a reserve deficit for most of that time.

This request would eliminate the program's projected FY 2021-22 year-end reserve deficit, returning the program to a neutral starting point, although BDS anticipates the program continuing to operate below cost recovery for the remainder of the five-year forecast. BDS's primary goal with this one-time request is continuity of operations for the program. Without these additional resources, the bureau sees two options for the program:

- Requesting that City Council approve significant fee increases. BDS notes that the sign industry has been vocally opposed to fee increases for the program. The program's fees were not increased at all between FY 2014-15 and FY 2018-19, but increased by 5% in FY 2019-20 and by 15% in FY 2020-21. Current projections assume a fee increase of 5% in each year of the five-year forecast, but the bureau does not project this increase as sufficient to allow the program to achieve cost recovery within the five-year period. The bureau notes that fee increases on the scale needed to sustain the program would negatively impact businesses at a time when many are already struggling.
- Requesting that City Council temporarily suspend all or part of the program. Suspending enforcement of code requirements for signs could lead to health or safety hazards or to pedestrian and ADA barriers due to haphazard placement of signs on sidewalks. Suspension would also lead to some future costs of re-starting the program: planning and training costs, notifying the public of the policy change, and potentially the need to hire additional personnel if the workload is unable to be absorbed by existing resources.

Although the current economic downturn is certainly affecting this program, the challenges it faces run deeper than just this downturn. Investing limited General Fund resources in the program now would still leave it facing a difficult situation after the resources expire (albeit with less of a reserve deficit to manage). CBO recommends that BDS work with City Council to identify a longer-term solution for supporting this type of work.

Under the Federal American Recovery Plan's current draft language, this request would likely be eligible for future federal stimulus funding, for which the rules and distribution are anticipated to be finalized this Spring. Due to limited available General Fund resources, CBO does not recommend General Fund support for this proposal; however, CBO would recommend allocating American Rescue Plan resources toward this request once the rules and funding are finalized.

**CBO Recommendation: \$0 ongoing | \$0 one-time | 0.00 FTE**

# SUMMARY OF REQUESTS & RECOMMENDATIONS (ALL FUNDS)

## Bureau of Development Services

		2020-21 Adopted Budget	2021-22 Requested Base (A)	Bureau Decision Packages (B)	CBO Recommended Adjustments (C)	Total Recommended Budget (A+B+C)
Revenue	Miscellaneous	\$4,800,736	\$2,956,727	\$0	\$0	\$2,956,727
	Licenses & Permits	\$49,624,596	\$29,598,301	\$0	\$0	\$29,598,301
	Interagency Revenue	\$1,868,353	\$1,955,257	\$0	\$0	\$1,955,257
	Fund Transfers - Revenue	\$1,005,775	\$1,031,925	\$9,467,728	(\$8,519,324)	\$1,980,329
	Charges for Services	\$20,836,016	\$13,437,191	\$0	\$0	\$13,437,191
	Beginning Fund Balance	\$84,323,897	\$61,005,190	\$0	\$0	\$61,005,190
<b>Revenue</b>	<b>Sum:</b>	<b>\$162,459,373</b>	<b>\$109,984,591</b>	<b>\$9,467,728</b>	<b>(\$8,519,324)</b>	<b>\$110,932,995</b>
Expense	Personnel	\$57,872,779	\$55,300,668	\$0	\$0	\$55,300,668
	Internal Materials and Services	\$16,618,727	\$16,660,203	\$0	\$0	\$16,660,203
	Fund Transfers - Expense	\$2,753,546	\$2,757,197	\$0	\$0	\$2,757,197
	External Materials and Services	\$7,550,587	\$6,648,872	\$0	\$0	\$6,648,872
	Debt Service	\$1,500,820	\$1,561,006	\$0	\$0	\$1,561,006
	Contingency	\$76,162,914	\$27,056,645	\$10,342,896	(\$9,394,492)	\$28,005,049
<b>Expense</b>	<b>Sum:</b>	<b>\$162,459,373</b>	<b>\$109,984,591</b>	<b>\$10,342,896</b>	<b>(\$9,394,492)</b>	<b>\$110,932,995</b>