



City of Portland, Oregon
Bureau of Development Services
Budget and Finance

FROM CONCEPT TO CONSTRUCTION

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BDS Finance Committee
Meeting Notes
Tuesday, December 1, 2015

Committee Members Present

Kimberly Branam, PDC Deputy Director
Josh Harwood, City Economist
Eric Hovee, E.D. Hovee & Co.
Jerry Johnson, Johnson Economics
Mike Paruszkiewicz, PSU NW Economic Research Center
Mike Wilkerson, ECONorthwest

City Staff Present

Rebecca Esau, BDS	Mark Feters, BDS	
Matt Grumm, Commissioner	Saltzman's Office	
Elshad Hajiyev, BDS	Doug Le, City Budget Office (CBO)	
Jessica Kinard, CBO	Mitch Nickolds, BDS	Kyle O'Brien, BDS
Andy Peterson, BDS	Paul Scarlett, BDS	Deborah Sievert Morris, BDS

Committee Members Absent

Justin Douglas, Portland Development Commission

Handouts

- Financial Summary
- Non-Cumulative Cost Recovery Report
- Large Projects Data
- Workload Measures Report
- Bureau Budget Goals and Strategy

Welcome & Self-Introductions

BDS Director Paul Scarlett welcomed Finance Committee members and City staff. Committee members and staff introduced themselves.

Mr. Scarlett expressed his appreciation for the Committee's time and stressed the importance of their input regarding BDS's finances and financial forecasting. The Committee has been meeting for several years and has been a valuable resource for the bureau.

BDS Finances & Financial Planning Update

BDS Finance Manager Elshad Hajiyev discussed the state of BDS's finances and reviewed the handouts **Financial Summary**, **Non-Cumulative Cost Recovery Report**, **Large Projects Data**, and **Workload Measures Report**. He said that current BDS permit activity and valuation levels are approaching pre-recession levels.

Mr. Hajiyev asked for the Committee's input regarding BDS's reserve goals as indicated on page 2 of the **Financial Summary**. He noted that programs with more volatility have higher reserve goals.

Committee members discussed the bureau's experience during the last recession, and noted that BDS now has a Business Continuity Plan to help recognize and respond more quickly to trends. Mike Wilkerson (ECONorthwest) said that the next recession won't be as extreme, and BDS has more reserves this time around. Mr. Scarlett said that no fee increases are projected for FY 2016-17. There is continuing pressure from the development industry to reduce fees.

Large Projects

City staff and Committee members reviewed the handout **Large Projects Data** and discussed the current pipeline of large development projects. The City's commitment to invest in affordable housing will lead to numerous multi-family developments in the next few years.

Mr. Scarlett reviewed the handout **BDS Director's Budget Goals Memo**. BDS now has about 330 positions, with many vacancies to be filled. The bureau has closed the gap on some service level goals, but some gaps remain because hiring and training haven't kept up with the growth in workload. BDS is still looking at positions that may need to be added in FY 2016-17. The bureau will be required to submit a 5% cut package for the General Fund monies it receives, which will impact the Land Use Services and Neighborhood Inspections programs.

Current Economic Trends Discussion

Mr. Hajiyev and Kyle O'Brien (BDS) gave an overview of BDS's forecasting model. They are expanding the model to include land use revenues for the first time, using econometric models. If the model works well, it will be used to inform models for permits. BDS is getting data from the PSU NW Economic Research Center, which should provide a finer grain for local data. Mr. O'Brien then asked the Committee for feedback on the data sources and models.

Jerry Johnson (Johnson Economics) said he is concerned about price points. He is seeing a slowdown in Class A product in other parts of the country. There may be some correction in Class A after a peak in 2016.

City Economist Josh Harwood said the City underestimated the number of people moving into Portland and the added wealth they have brought, and that is propping up the multifamily market. Mr. Johnson noted that condos aren't working well right now for a variety of reasons.

Mr. Wilkerson said that some developers are moving from multifamily to office development; they see too much in the pipeline and are waiting for the correction to take place. He added that growth in wages isn't enough to support higher prices for housing, and that he's not seeing the shift from apartments to condos that historically would occur at this point in the cycle.

Eric Hovee (E.D. Hovee & Co.) said that he is more optimistic about the demand for apartments, but the price points are getting too high. He thinks the suburbs will start picking up some projects from the city. Mr. Wilkerson said that construction costs are really high right now, hindering some development in the suburbs. Mr. Johnson said rents aren't sufficient to support multifamily development in outer SE Portland; he thought it might be interesting to look at what is driving construction costs up. Mr. Wilkerson said that he had heard that there are skilled labor shortages in the construction industry, which would increase labor costs. The biggest risk is the impact of state policy initiatives on office development; they could put a damper on the move from multifamily to office.

Mr. Hajiyev noted that BDS is no longer using the state economic forecast, but is relying on Moody's and PSU NW Economic Research Center data for local accuracy.

Mr. Harwood said that the City forecast will be out in the next couple weeks. He anticipates lower growth rates a few years out. PERS rates will go up, and costs will go up faster than revenues.

Committee members and staff briefly discussed the hotel market. There was consensus that the recent influx of hotel permits is likely transitory and should not be relied on as a long-term permit revenue stream. Once the permitted units are built there will not be a need for further hotel development.

Single-Family Development

Mr. Johnson said there is huge demand for single-family (SF) development, but few buildable lots are available in Portland and the suburbs haven't been able to deliver lot supply due to planning/zoning issues. There aren't other alternatives.

Mr. Harwood said it is hard to move within the city due to high prices and low supply.

BDS Plan Review/Permitting Services Manager Andy Peterson said they are seeing more major remodels/additions coming in, but they saw even more a couple years ago. There have been 750 new housing starts this year, down a little bit from last year. They may see a lot come in between now and March 2016, when the new Demolition Tax goes into effect.

Mr. Hovee said that prices are keeping first-time buyers out of the market, and financing is still challenging.

Mr. Peterson noted that there are some City planning projects that may have an impact on development; they will go into effect in late 2017/early 2018:

- Mixed Use Zones Project – overhauling mixed use zones
- Residential Infill Project – housing types that can be built in SF zones
- R 2.5 Project

Matt Grumm (Commissioner Saltzman's Office) said that these projects could be pushed back to 2019/2020 depending on legal challenges.

Kimberly Branam (PDC) said that technology continues to drive office development – acquisitions, growth. There is a lot of interest in the central eastside, which may get rezoned from industrial to employment. There is more interest from institutional investors than in the past.

Mr. Hovee mentioned disruptive technologies (driverless cars, Air BNB, Uber, Lux) and their impact on real estate. They're a few years out and still somewhat undefined, but will affect permitting.

Mr. Johnson said the market is seeing more national/international investors than in the past. Portland seems to be moving up in prominence, though it is still cheaper than anywhere else on the west coast.

Mr. Hajiyev asked Committee members whether they saw any upside/downside risks to construction activity, both in the next year and 5 years out. Mr. Johnson said that residential development could go way down. Mr. Hovee and Mr. Harwood mentioned migration, and Ms. Branam added the resolution of the gross receipts tax.

Next Meeting Details

Mr. Hajiyev said the next meeting will be scheduled for early January 2016, and he will have preliminary models for the Committee's review and feedback.