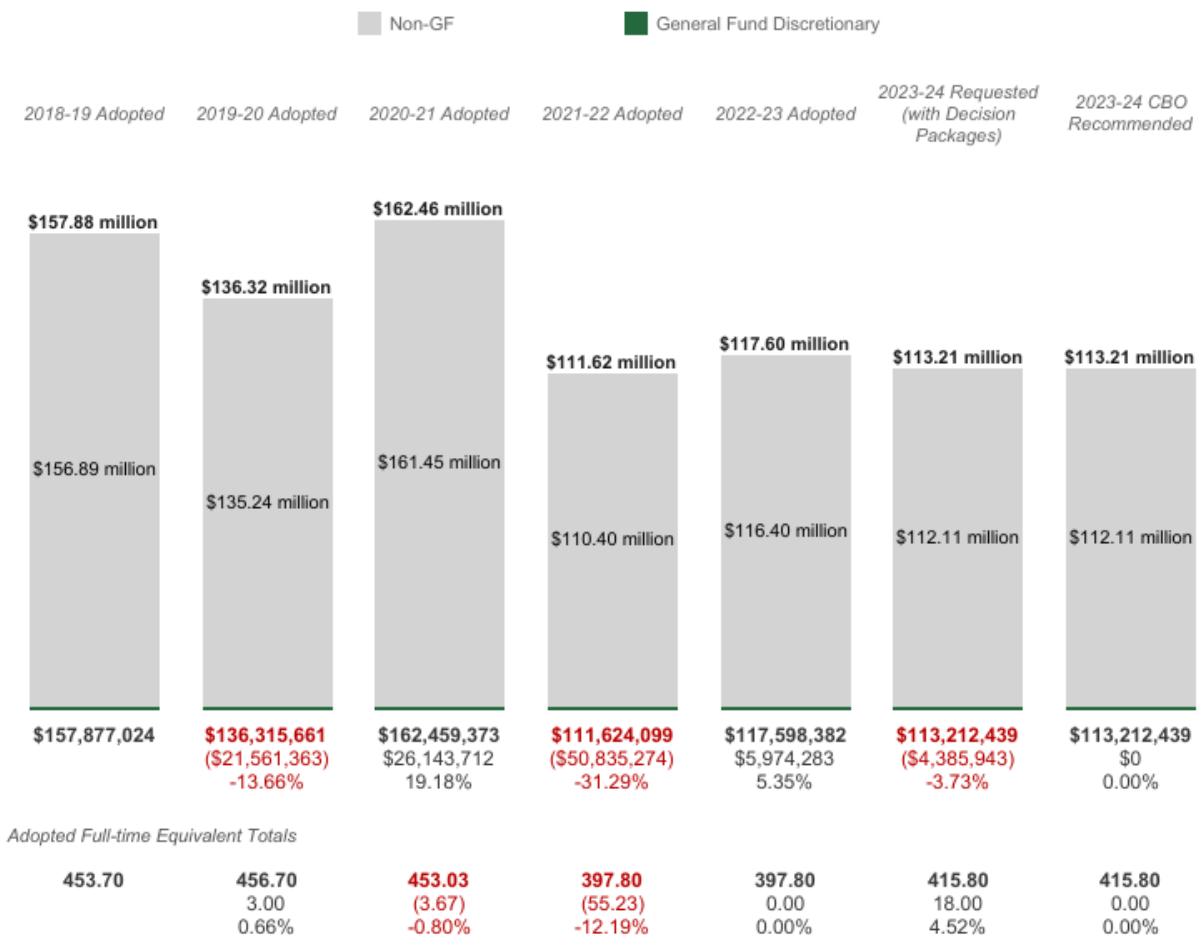




Bureau of Development Services

Adopted Budget Revenues | 5-Year Lookback



EXECUTIVE SUMMARY

The Bureau of Development Services (BDS) administers and enforces State building codes and local development codes to promote safety, livability, and economic vitality. In FY 2023-24, the bureau's current service level Requested Budget does not include any additional positions, with 415.8 FTE and an operating budget of \$93.8 million. The bureau's budget relies on fee and

permit revenues, which are sensitive to the ebbs and flows of the development cycle. The ability for BDS to provide timely, predictable services is essential in attracting investment in Portland.

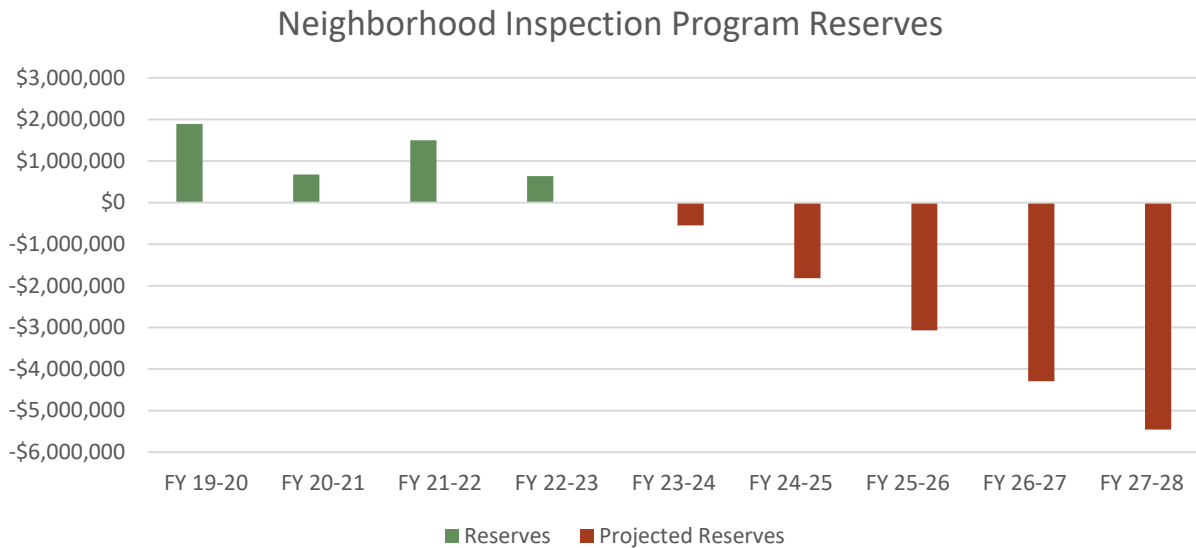
BDS's Requested Budget does not include decision packages for new General Fund resources, and its anticipated fee increases are in-line with previous projections. The most salient issue for BDS is the future of funding of the Neighborhood Inspections Program, currently supported primarily by General Fund resources and the assessment of fines for violations. Additionally, this review highlights the unique interaction of BDS reserves and General Fund support—and recommends that the City Budget Office (CBO) work to develop clear criteria for evaluating future BDS General Fund requests inclusive of target points for reliance on the General Fund verses use of bureau reserves.

BASE BUDGET & KEY ISSUES

Neighborhood Inspections Program

The purpose Neighborhood Inspections Program is to ensure that basic, minimum health and safety standards are met for all properties across Portland. The largest revenue source for this program is enforcement fees. However, enforcement fees are only collected if the property is not brought into compliance. On average, 85% of enforcement cases are brought into compliance prior to the assessment of code enforcement fees. Vulnerable populations are at higher risk of code enforcement complaints since less maintained properties are often more affordable. Therefore, given the disparate impacts on marginalized communities, one goal of the program is to reduce the amount of properties that must pay an enforcement fee. Owing to this model of operation, the Neighborhood Inspections Program has experienced multiple years of decreasing revenues and resource uncertainty. The Program has drawn on reserves for years and currently reserves are forecasted to be entirely depleted in mid-FY 2023-24¹. As outlined in a previous CBO review, and in a BDS assessment report released December 2022, the 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. Unrelated fees—such as those earned through the permitting of construction projects—cannot be used to subsidize the Neighborhood Inspections Program according to State Code. Since the point of the fees is enforcement and not cost recovery, and because other BDS revenue cannot be used to fund the program, previous CBO reviews have recommended General Fund support for this program. The program is projected to draw down on reserves for the entire 5-year forecast period and projected to end FY 2027-28 with a reserve deficit of \$5.5 million.

¹ Reserve goals are based on a percentage of each individual program's projected expenditures.



Over the previous three fiscal years the program would have required an additional \$1.3 million in ongoing General Fund support to reach 100% cost recovery from fees and General Fund. This is close to the forecasted need over the next five years: \$1.25 million in additional ongoing support to move off of compliance fees and into a General Fund backed program.

Appropriate Use of General Fund and Reserves

BDS's program reserve targets are specific to each program and are calculated as a percentage of projected expenditures in the financial plan. These act a counterbalance to economic cycles, help maintain staff, and provide a funding source to bring on new employees in anticipation of greater demand for services. Over the past decade BDS has increased its total bureau minimum reserve level from 10% to 50% of its annual operating budget, largely in response to the volatility of its revenue streams in the aftermath of the Great Recession. Unlike the General Fund, BDS's reserve levels are a target and there is no requirement to replenish it over any time frame. This gives the Bureau great flexibility in how those reserves are used.

In recent years, many of BDS's General Fund requests have been for bridge funding to temporarily support positions until a commensurate increase in fee revenue covers the ongoing cost. If General Fund support is not received, the Bureau may instead use program reserves to fund the position. Often CBO has not recommended bridge-funding packages given the many demands on the General Fund and the existence of flexible reserves within BDS. However, there are potential circumstances where General Fund support is appropriate for bridge funding. For example, a steep decline in program revenue that leads BDS to draw upon its reserves, followed by a very quick recovery where service demand grows beyond previous levels. This was one path that BDS's Financial Advisory Committee foresaw in the aftermath of the COVID pandemic—although it did not come to pass.

Given the uniqueness of BDS's reserve policies, and the volatility of its revenue streams, CBO will aim to develop clear and consistent criteria for evaluating BDS's General Fund requests in preparation for FY 2024-25's Budget Development.

DECISION PACKAGE ANALYSIS

The Bureau of Development Services submitted no non-General Fund Budget requests.

FIVE YEAR FINANCIAL PLANS

BDS's five-year financial plan is largely dependent on the local economy and development. Given this reality, BDS actively engages with a Financial Advisory Committee twice a year to evaluate its econometric models, provide insights on local development patterns, and signal if BDS's projections are consistent with the larger economy. The Committee last met January 2023 and signed off on a letter in support of BDS's models and financial projections.

BDS projects a drop revenue across almost all programs in FY 23-24, followed by a moderate recovery starting in FY 2024-25. This is in line with Committee comments regarding the significant headwinds that higher interest rates pose on local development in the short term.

SUMMARY OF REQUESTS & RECOMMENDATIONS (ALL FUNDS)

Bureau of Development Services

		2022-23 Adopted Budget	2023-24 Requested Base (A)	Bureau Decision Packages (B)	CBO Recommended Adjustments (C)	Total Recommended Budget (A+B+C)
Revenue	Miscellaneous	\$2,276,311	\$2,972,750	\$0	\$0	\$2,972,750
	Licenses & Permits	\$44,213,296	\$42,862,954	\$0	\$0	\$42,862,954
	Interagency Revenue	\$2,069,604	\$2,119,833	\$0	\$0	\$2,119,833
	Fund Transfers - Revenue	\$1,195,000	\$1,102,741	\$0	\$0	\$1,102,741
	Charges for Services	\$18,316,363	\$17,913,686	\$0	\$0	\$17,913,686
	Beginning Fund Balance	\$49,527,808	\$46,240,475	\$0	\$0	\$46,240,475
Revenue	Sum:	\$117,598,382	\$113,212,439	\$0	\$0	\$113,212,439
Expense	Personnel	\$60,236,257	\$67,039,886	\$0	\$0	\$67,039,886
	Internal Materials and Services	\$16,286,190	\$17,452,371	\$0	\$0	\$17,452,371
	Fund Transfers - Expense	\$3,423,434	\$3,485,296	\$0	\$0	\$3,485,296
	External Materials and Services	\$7,424,220	\$9,344,901	\$0	\$0	\$9,344,901
	Debt Service	\$1,623,446	\$1,688,360	\$0	\$0	\$1,688,360
	Contingency	\$28,604,835	\$14,201,625	\$0	\$0	\$14,201,625
Expense	Sum:	\$117,598,382	\$113,212,439	\$0	\$0	\$113,212,439