



**PP&D Financial Advisory Committee
Meeting Notes
Wednesday, April 23, 2025**

FAC Members Present:

Andy Peterson, Retiree
Jeff Renfro, Multnomah County
Jerry Johnson, Johnson Economics
Josh Harwood, Metro
Kym Nguyen, Development Review Advisory Committee (DRAC)
Lauren Golden Jones, Capstone Partners LLC
Mike Paruskiewicz, United States Army Corps of Engineers
Mike Wilkerson, ECONorthwest
Paul Delsman, Howard S. Wright
Peter Hulseman, City of Portland Economist
Sean Green, Development Review Advisory Committee (DRAC)
Tom Potiowsky, Portland State University

City Staff Present:

Alice Nielsen, Interim Permitting Services Manager, Portland Permitting & Development (PP&D)
Angel Landron, Deputy Director, Portland Housing Bureau (PHB)
Beth Benton, Property Compliance Inspections Manager, Portland Permitting & Development (PP&D)
Chris Gustafson, Financial Analyst, Portland Housing Bureau (PHB)
Daniel Ramirez-Cornejo, Analyst, Portland Parks & Recreation (PP&R)
David Kuhnhausen, Interim Bureau Director, Portland Permitting & Development (PP&D)
Doug Morgan, Plan Review Services Manager, Portland Permitting & Development (PP&D)
Elshad Hajiyev, Deputy Director, Portland Permitting & Development (PP&D)
Eriko Shimada, Financial Analyst, Portland Water Bureau (PWB)
Kathy Tran, Financial Analyst, Portland Permitting & Development (PP&D)
Ken Ray, Public Information Officer, Portland Permitting & Development (PP&D)
Kim Tallant, Land Use Services Manager, Portland Permitting & Development (PP&D)
Kyle O'Brien, Budget & Finance Manager, Portland Permitting & Development (PP&D)
Lisa Perrin, Digital Services Manager, Portland Permitting & Development (PP&D)
Ray Galinat, Financial Analyst, Portland Permitting & Development (PP&D)
Sandra Wood, Principal Planner, Bureau of Planning & Sustainability (BPS)
Sangeen Khan, Financial Analyst, City Budget Office (CBO)
Stephen Himes, Public Infrastructure Development Review Manager, Portland Permitting & Development (PP&D)
Terri Theisen, Strategy Manager, Permit Improvement Project

Handouts:

- Business Continuity Plan Summary
- Non-Cumulative Cost Recovery Report
- Workload Measures Report
- Large Projects – 6-month comparison
- Program Growth Rates

1. **Welcome**

Portland Permitting & Development (PP&D) Interim Director David Kuhnhausen welcomed Financial Advisory Committee (FAC) members and City staff and convened the meeting, expressing appreciation for the committee members in attendance and their input.

David explained that PP&D is facing difficult decisions to minimize reliance on reserves, balance its budget and reach 100% cost recovery for fiscal year 2025-26 which begins July 1, 2025. PP&D Division managers have had preliminary conversations with employees whose positions might be eliminated from the fiscal year 2025-26 budget. The bureau is already at minimal staffing levels and further decreases in staffing would negatively affect service delivery and the long-term success of the bureau.

To guide its financial projections, PP&D is looking to FAC members for their expert opinions on the current economic state, specifically any changes to the financial outlook since the last FAC meeting in January 2025.

2. **PP&D Finances and Financial Planning Update**

Portland Permitting & Development (PP&D) Budget & Finance Manager Kyle O'Brien began by providing an overview of the bureau's current financial state while looking to the Committee for insight on the future economy.

Kyle presented the handout ***Non-Cumulative Cost Recovery Report***, explaining the bureau is established as an operating fund with 98% of its funding coming from fees and charges for services. In December 2024, the PP&D cumulative cost recovery rate was 86%. The cost recovery rate in January 2025 was 98%, February was 101%, and March was 96%. The overall, fiscal year-to-date, cumulative cost recovery rate is 90%. The bureau's reserve balance in December 2024 was \$19.1M and in March 2025 was \$18.7M. There has been a small amount of large project activity but no new market rate apartment or condominium projects. The bureau has seen more activity with residential projects and smaller commercial projects.

FAC member Mike Paruszkiewicz asked how the preferred level of reserves for the bureau is set. Kyle explained the reserve goal is 50% of annual expenditures. The bureau has been drawing on its reserves for several years and the current reserve balance is below this goal with annual expenditures over \$80M.

Kyle reviewed the handout ***Business Continuity Plan Summary*** (BCP). The BCP is a management tool that indicates changes in development activity. March 2025 showed all leading indicators as green and in the positive direction. There are still 3 out of 5 plan triggers active; however, previous months had all 5 triggers active.

PP&D is seeing increases in non-cumulative monthly cost recovery rate, land use cases received, site development permits received, land use final plats received, pre-application conferences, early assistance appointments, and total valuation and total number of building permit applications received.

The third page the BCP summary is the Business Continuity Plan Triggers. Reduction measures outlined in the Business Continuity Plan will be triggered when four out of five triggers are active (red). The BCP triggers are:

- Trigger 1: Cumulative Cost Recovery Rate (Activated when the cumulative cost recovery rate is below 100%.)
- Trigger 2: Reserves (Activated when bureau reserves are below the minimum reserve goal of 50% or 6 months of total expenditures.)
- Trigger 3: Revenue (Activated when bureau revenues have been declining consistently for the previous 6 consecutive months.)
- Trigger 4: Total Valuation of Building Permit Applications Received (Activated when the total value of all building permit applications received by the bureau has been declining consistently for the previous 6 consecutive months.)
- Trigger 5: Total Number of Building Permit Applications Received (Activated when the total number of all building permit applications received by the bureau has been declining consistently for the previous 6 consecutive months.)

Business Continuity Plan Triggers compare year-over-year numbers. Revenue has increased 6.4% year over year in the last 6 months. PP&D is seeing lower total valuation of building permit applications but an increase in the total number of building permit applications.

Kyle summarized the handout ***Program Growth Rates***. The forecast assumes 0% growth for most programs in year 1, moderate growth in year 2, then slightly higher growth rates for year 3-5 of the financial plan. Kyle asked FAC members to provide insight on the first two years of the forecast due to uncertainty and volatility.

FAC member Peter Hulseman asked if the same shift from large projects to smaller projects was seen after the 2007-2008 recession. Kyle confirmed a similar pattern was present in 2008. Peter highlighted that in 2008 development activity dropped from higher volumes, whereas this time the reduction in activity has already occurred. More residential projects could be a result of people being locked into mortgages as higher interest rates make it unfeasible to move.

Bureau of Planning & Sustainability (BPS) Principal Planner Sandra Wood asked why the projected growth rate for Land Use Services (LUS) Case Review is higher than other programs. Kyle explained the LUS case review activity is not based on building permits. The program's activity has had a downward trend overall but recently bottomed out. The nominal increase required to get to higher projected LUS case review growth rates is within historical swings. Sandra noted that BPS is looking to reduce regulations, allowing developers more flexibility to build within the City of Portland. Regulation reductions might result in further declines in demand for LUS reviews.

3. Current Economic Trends Discussion

Kyle asked the committee if there have been changes in the overall economic environment since the last FAC meeting in January.

FAC member Jerry Johnson stated that nothing has changed to make things seem more optimistic. FAC member Josh Hardwood added the economic environment has become more uncertain, resulting in developers taking fewer risks. Josh stated it will be hard to make projections until there is more stability.

FAC member Mike Wilkerson noted that we seem to be at the bottom of the business cycle, and the development activity will most likely either hold steady or see a large bump in growth; 0% or 15% are more

likely than 3% growth. The bureau should plan for zero growth; however, there could be a 10-15% jump. Mike advised PP&D to continue drawing on reserves for as long as possible to avoid layoffs as a financial recovery is on the horizon. The question is how long PP&D can hold on without cutting staff.

Peter Hulseman stated the current revenues model is propped up by non-large projects. These revenue sources might be at higher risk as people may hold on to cash and limit expenditures due to economic uncertainty. While this doesn't necessarily change the financial outlook, it does add more volatility and uncertainty.

Andy Peterson stated that PP&D is receiving lower value work, but essentially the same amount of labor is required to process these applications, thereby decreasing profit margins on each project. Andy agreed a zero percent growth rate in FY 2025-26 seems accurate. However, Andy acknowledged the potential for less growth in FY 2026-27 as tariffs may result in increased raw material costs adding headwinds to potential development.

Mike Wilkerson posited BCP indicators are seeing a positive shift due to current activity being so low, however there is no indication a turnaround will occur in the next 12 months, and uncertainty clouds the outlook over the next 24 months. Mike noted that a recession could speed up a potential recovery as interest rate decreases could stimulate activity. Peter Hulseman added that if a recession occurs in conjunction with continued inflation the Fed's would most likely not be able to respond by lowering interest rates.

FAC member Lauren Golden Jones suggested talking to elected officials and policy makers. Lauren stated there needs to be substantial policy moves, such as waiving System Development Charges (SDCs) for several years, or waiving permit fees and changing the bureau's funding model, for development industry activity to pick up meaningfully. Lauren did not recommend changes to PP&D projections. David Kuhnhausen mentioned the City is motivated to find opportunities to increase development, with SDC waivers for a specific time or number of units as a possibility. David added that a turnaround probably will not be triggered by one policy change, but rather a combination factors.

FAC member Jeff Renfro stated that Multnomah County is seeing business tax income as the most exposed. Multnomah County is assuming higher interest rates, households making decisions under extreme uncertainty, and a possibility of the tariff threat disappearing soon in their projections. Jeff advised PP&D to take a cautious approach, by not overreacting to the macro economy, and to consider spending reserves over the short-term.

Peter Hulseman noted the City's General Fund forecast will not be changing its outlook but will highlight increased uncertainty, and suggested PP&D take a similar approach. Josh Harwood agreed, adding that Metro is using a similar strategy with a focus on communicating the increased variance and uncertainty in its forecasts.

Mike Wilkerson advised PP&D to review the impetus of getting to 100% cost recovery as the current burn rate allows for a few more years of continued reserve draw. Measures to achieve 100% cost recovery in the coming fiscal year may leave the bureau with insufficient staff to effectively respond to potential upcoming increased development activity. Mike suggested that, in the current economic environment, it makes more sense to be cautious and wait for increased certainty.

Jerry Johnson noted there is currently no residential overhang, which would allow the development industry to recover relatively quick if a recession were to occur. Layoffs would negatively affect PP&D's ability to provide services to the development industry if a quick recovery were to materialize.

Andy Peterson added that PP&D could use this time developing efficiencies to optimize the bureau's ability to respond to increased development activity. Lessons learned from the last recession show that reactively attempting to increase staff is very difficult.

Mike Wilkerson noted that during times of budget constraints drawing on reserves does not affect the City's General Fund budget. The directive to achieve 100% cost recovery may be at odds with efforts to increase productivity and review timelines.

Portland Housing Bureau (PHB) Deputy Director Angel Landron asked how long the PP&D reserve balance will last. Kyle stated that based on the current fiscal year draw rate, the reserve balance of \$18.7M would last more than two years. However, there are other factors that impact expenditures such as cost-of-living adjustments (COLA), pay changes associated with collective bargaining agreements, and employee merit increases. On the revenue side, there are fee changes to consider. Angel recommended PP&D maintain its staff capacity.

FAC member Kym Nguyen stated businesses across the country are experiencing difficulties, and suggested the bureau should look other solutions such as furloughs to reduce costs. Kym encouraged the bureau to remain optimistic about the future, noting there is a lot of money waiting for the right timing to be invested in Portland.

Generally, FAC members advised PP&D to maintain its current forecast, but to highlight added uncertainty. Additionally, the committee recommended PP&D to continue drawing on reserves until there is more certainty in the economy. If the public policy goal is to increase development, cutting staff will impact PP&D's level of service in the future. David Kuhnhausen agreed with the committee, adding that present cuts will hurt PP&D's ability to respond to future increased development activity.

4. **Adjourn**

Kyle, Elshad, and David expressed gratitude to FAC members for their time and recommendations.

Meeting notes prepared by Kathy Tran and Ray Galinat