



**PP&D Financial Advisory Committee
Meeting Notes
Tuesday, November 19, 2024**

FAC Members Present:

Amy Vander Vliet, Oregon Employment Department
Andy Peterson, Retiree
Jeff Renfro, Multnomah County
Jenny Liu, Portland State University
Jerry Johnson, Johnson Economics
Lauren Golden Jones, Capstone Partners LLC
Mike Wilkerson, ECONorthwest
Peter Hulseman, City of Portland Economist
Sean Green, Development Review Advisory Committee (DRAC)
Tom Potiowsky, Portland State University

City Staff Present:

Beth Benton, Property Compliance Manager, Portland Permitting & Development (PP&D)
Cecelia Huynh, Portland Water Bureau
Christopher Gustafson, Portland Housing Bureau
Claudio Campuzano, Portland Parks & Recreation
Dave Tebeau, Inspections Services Manager, Portland Permitting & Development (PP&D)
David Kuhnhausen, Director, Portland Permitting & Development (PP&D)
Doug Morgan, Plan Review Services Manager, Portland Permitting & Development (PP&D)
Elshad Hajiyevev, Deputy Director, Portland Permitting & Development (PP&D)
Kathy Lyndon, 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)
Megan Cummings, Bureau of Planning & Sustainability
Sandra Wood, Principal Planner, Bureau of Planning & Sustainability
Sangeen Khan, Financial Analyst, City Budget Office (CBO)
Stephen Himes, Public Infrastructure Manager, Portland Permitting & Development (PP&D)
Steven Bloom, Bureau of Environmental Services
Tony Barnes, Prosper Portland

Handouts

- Financial Summary
- Business Continuity Plan Summary
- Non-Cumulative Cost Recovery Report
- Workload Measures Report
- Large Projects – 6-month comparison
- Budget & Reserves Charts

1. Welcome

PP&D Director David Kuhnhausen welcomed Financial Advisory Committee (FAC) members and City staff and convened the meeting by expressing appreciation to the committee members for their participation and input.

2. Self-Introductions

Attendees made self-introductions.

3. PP&D Finances & Financial Planning Update

Bureau's Current Financial State

Portland Permitting & Development (PP&D) Budget & Finance Manager Kyle O'Brien began by setting a framework for FAC meetings. This first meeting serves to provide an overview of the bureau's current financial state while looking to the Committee for insight on the economy. This meeting will be crucial as PP&D projects revenues for the next five years.

The entity formerly known as the Bureau of Development Services is now Portland Permitting & Development. The bureau features ten divisions, including one dedicated to customer support for all types of permitting. Other teams will specialize in specific parts of the development process, such as public infrastructure and building permit review. The new bureau brings together staff from the longstanding Bureau of Development Services to with work teams formerly from the Parks & Recreation Urban Forestry, Transportation, Water and Environmental Services bureaus.

PP&D Budget & Finance Manager Kyle O'Brien explained that the bureau is established as an operating fund, meaning it is primarily funded by fees and charges for services with very little support from the General Fund. This ties PP&D revenues closely to the volatile construction industry. As such PP&D has its own reserves, and reserve goals are set to ensure continuity of operations. The overall bureau reserve goal is 50% of annual expenditures with the Building/Mechanical Program, Environmental Soils Program, Signs Program, and Land Use Services reserve goals set at 75%. Services provided by Land Use Services take place at the leading edge of the development cycle, with program revenues and workload highly susceptible to any fluctuations in the construction development cycle; therefore, a program reserve goal of 75% is prudent and provides PP&D with the necessary time to react should reserves drop below this goal. The Building/Mechanical program performs structural and mechanical inspections that are usually the last stage in the bureau's work on development projects. The higher reserve goal ensures the bureau has enough resources to provide inspections services prepaid by developers and homeowners. The current programmatic reserve goals and bureau total minimum reserve level allow the bureau to better manage unpredictable fluctuations in economic conditions.

Portland construction activity, large project activity, and bureau revenues have declined. There is also little demand for new hotel or office spaces, and multifamily apartment development has been impacted by interest rates and decreasing property values. The highest reserve balance was \$92M in FY17-18. As of September 30, 2024, \$22.7M remains in reserves. with an average draw of \$800K per month on reserves this fiscal year.

The bureau reduced expenditures last fiscal year by implementing:

- Hiring freeze, offering voluntary schedule reductions, reducing overtime spending as well as non-essential spending on training, etc.

- Layoff of 68 PP&D employees and 4 contract employees (employees spread across all divisions and include management and non-management positions, both union- and non-represented)

Kyle reviewed the Large Projects 6-month Comparison. The list is longer compared to last year and the valuation is also higher due to OHSU - Doernbecher Children's Hospital Addition application received in June 2024. The project valuation is \$220M valuation. There are more projects in the most recent 6-months but lower project valuation on average, excluding OHSU. The largest PP&D fees charged to customers are based on project valuation. PP&D workload has not declined as severely as valuations because there are more small projects.

PP&D has 19 programs. The largest portion of PP&D fee revenues are associated with State-mandated building code programs, including Building, Mechanical, Plumbing, and Electrical. State statutes regulate these programs and prohibit revenue collected by them to be used for local code enforcement programs. PP&D's local code programs include Land Use Services, Neighborhood Inspections, Accessory Short-Term Rental, Environmental Soils, Signs, Zoning Compliance, Site Development, Noise, Environmental Services, Transportation, Urban Forestry, Water, Liquor Licensing and Cannabis Licensing. Revenues from these programs are to be used on the programs generating the revenues, according to City Code.

Historically, Land Use Services received General Fund monies; however, that support ended in FY 2017-18. The Neighborhood Inspections, Liquor Licensing and Noise enforcement programs receive a small amount of General Fund support. Approximately 2 percent of bureau revenues come from General Fund dollars. The new Public Infrastructure program is subsidized by some interagency revenue.

Overview of PP&D's Forecasting Model

A brief overview of the bureau's Five-Year Financial Plan modeling was provided to the Committee. Over 80% of revenues are forecasted by econometric modeling, using data from Moody's, and State of Oregon Office of Economic Analysis (OEA) in addition to bureau data for land use case reviews, permit numbers, valuations, and revenues. Specifically, the Building, Mechanical, Plumbing, Electrical, and Land Use Services fee revenues are econometrically forecasted. The Facility Permit Program (FPP) and the Field Issuance Remodel (FIR) rates are a weighted average of the Building, Mechanical, Plumbing, and Electrical growth rates. Site Development and Zoning Enforcement growth rates are based on the Building Program rates. Environmental Soils, Signs, Neighborhood Inspections, Accessory Short-Term Rental, Liquor, Noise, and Cannabis Licensing are projected using averages of forecasted economic data such as population, housing price index, employment, incomes, and retail sales.

This will be the first year forecasting the Environmental Services, Transportation, Urban Forestry and Water programs. The bureau will present its growth rates and for these programs in the next Financial Advisory Committee meeting.

Overview of PP&D Expenditures

Expenditure projections are based on current expenditures with consideration for inflation, expected increases to labor costs, and special projects. Personnel expenses are by far the largest cost, accounting for over 70% of overall PP&D expenditures.

Large Projects

Portland Permitting & Development (PP&D) revenues are heavily reliant on large project revenues. The revenue PP&D collects is based on project valuation. PP&D closely monitors large project activity and makes necessary adjustments in the revenue projections to incorporate known and expected large project activity.

4. Current Economic Trends Discussion

Economic Outlook Discussion

Kyle began the economic outlook discussion by asking for the committee's opinion of current economic expectations and what are the biggest risks to the overall economic outlook in the next year.

Tom Potiowsky described the overall economy as running in place (not slowing down or speeding up) and in a holding pattern. There are many unknowns in the economy. There may be a quarter point drop in interest rate in the near future. There is nothing known that is horrible in the horizon, but the Trump cabinet appointees are inexperienced and this causes increased uncertainty for the future. The stock market is performing well; however, changes to interest rates, inflation, etc. will take several years to play out.

Jerry Johnson shared he focuses more on microeconomics. Affordable housing is a huge portion of large project construction activity. Public investment which includes affordable housing subsidies are crowding out space and not leaving opportunities for the private sector.

City of Portland Economist Peter Hulseman stated the big question over the big year has been answered—the federal reserve has 'landed the plane' in terms of avoiding a recession. Tariffs is a major risk factor for the City of Portland. There will be inflationary economy impacts. Business license taxes will go up in proportion with tariffs.

Kyle mentioned he attended the Housing Building Association (HBA) forecast. In Oregon, construction immigrant labor is approximately 20%. If some of the policies are implemented, the labor supply side will take a hit. Population growth will be there but not above 1% per year as we've seen in previous years.

Mike Wilkerson said there are two concerns as it relates to proposed policies - deportation vs reduction in the overall immigration. Any decrease in international migration into this region will affect supply side labor. The regional jobs market is the most concerning in addition to federal data. Through October 2024, Oregon is placed 49th out of 50 states. Across all sectors, Portland metro including Vancouver is 45th out of top 50 markets. The semi-conductor and athletics/apparel industries are being hit very hard. These industries are where the area would normally see the highest growth and productivity. There are federal dollars previously projected to materialize that may not come in the next 4 years. Currently in question is the funding for the interstate bridge replacement.

Amy Vander Vliet with the Oregon Employment Department shared Oregon employment numbers was revised up by thousands. Oregon is still on the bottom compared to other states. For the past 2 to 3 years there have not been major changes in employment. Healthcare is pulling employment numbers up but not enough to show significant growth. There is risk with major companies announcing they are leaving downtown Portland. Tariffs in manufacturing and retaliation are risks with the new government administration. Immigration is declining and there is negative population growth.

Mike Wilkerson affirmed there is not much positive data right now; however, the revenue forecast is coming out very soon. The IRS data is the most accurate and next is the Partnership for Economic Policy (PEP) data. The Urban Land Institute (ULI) emerging trends report is catastrophic for Portland. The city is ranked 80 out of 81 markets. The silver lining is the local view of Portland is 73rd (people who live in Oregon believe Portland is not as bad, comparatively). FAC members agreed that it is all upside from here on out and at least there is no more downside to go.

Jerry Johnson stated if Portland does not have employment growth that signifies no in-migration. The multi-family sector is seeing 6% vacancy rates overall downtown Portland. The big pink building downtown was 80% vacant before US Bank decided to pull out. On the population side, data suggests there is not a decrease in young people coming to Portland. The issues are not with recruiting people to move to city but retaining the existing residents.

Tom Potiowsky stated the PSU population center released the population estimates. Oregon had a 50,000 decrease in population. College enrollment and applications is down for Portland State University whereas Oregon State University and University of Oregon were both oversubscribed and had to halt admissions. There is a damaging Portland perception causing people stay away from downtown.

Household formations is a good indicator for Portland housing development. Households will increase by 8% over the next 20 years. It is a half a percent per year for just household formations. There is an aging population and trend shifting away from apartments. As rents are going up, more single individuals will decide to room share.

Kyle mentioned Moody's and the Oregon Office of Economic Analysis are PP&D's main source of data for forecasting. Moody's population forecast was too high last year, and the bureau manually adjusted this down based on FAC member feedback.

Lauren Golden Jones stated there are some tenant improvements; however, there is no loosening in the construction financing market. Fund managers and executives do not see acceptable returns for taking development risks in Portland. There is no multi-family movement because of the 10-year treasury. Development is not expected to materialize in the City of Portland in 2025 despite declining interest rates. Construction costs need to go down and rents go up for market conditions to be favorable to new construction activity. Wages are not keeping up with inflation and there is a housing deficit.

There needs to be changes by policy makers. The local election and restructuring of City Council with 12 new members is going to be a challenge. Many new City Council members have never been in government. Aside from the non-profit sector, there is worry and questions arising regarding business growth in the City of Portland.

Mike Wilkerson reiterated that the cost of building new remains far higher than buying existing buildings. Cap rates will need to decline to drive value. The leading indicators such as interest inflation rates are not moving quickly; therefore, transaction costs are not declining enough to attract capital investment. Jerry Johnson added it is approximately 40% less expensive to buy existing property. Leading indicators are not moving enough. In talking with many developers, they do not expect new development happening in the next 18-24 months.

Jeff Renfro with Multnomah County mentioned he spoke to the assessor's office. There are high assessments in Multnomah County compared to Washington and Clackamas County. Portland is behind the suburbs when it comes to new construction activity.

Lauren Golden Jones said regional banks are lending for 20-unit projects. For larger projects, institutional banks such as Wells Fargo, US Bank, and Bank of America are needed to provide lending. The large construction loans are pausing in the office and hotel space, but smaller scale projects might come through in the next few years. Lauren thought projects could recover in Q2 or Q3 of 2026. The market rate does not always follow the normal real estate cycles.

Sean Green with Development Review Advisory Committee (DRAC) is excited about having Keith Wilson as Mayor. Sean said Keith Wilson will be focused on houselessness issues. The mayor elect has an ambitious plan to help create strategies to get people off the streets. Keith comes from a background of process improvement and change management.

Kyle will not forecast any new large projects for office and hotel sector in the next 5 years. Recent events introduced more uncertainty to forecasts – such as potential large-scale tariffs.

Elshad asked FAC members what the timeline is for PP&D and if forecasts have changed since the July 2024 FAC meeting. Tom Potiowsky felt more mildly optimistic. Whereas Mike Wilkerson is feeling more pessimistic than at the July's FAC meeting. He feels there's more downside uncertainties that have been introduced. We are closer to 2 years of no activity from today's meeting. There's no new units and capital that will deliver new units.

The consensus among Financial Advisory Committee (FAC) members is that a continued 24-month downturn from December 2024 is a reasonable outlook. It will take time for the Portland economy to recover. In order for there to be investment in Portland, the City task force will need to focus on public safety, cleanliness and homelessness/housing. In addition, the overall land price, zoning codes, SDCs and regulations must be reviewed for feasibility. It will take time to repair Portland's damaged reputation to institutional investors. Also, the new form of government introduces considerable uncertainty.

5. Next Meeting Details

The next FAC meeting is scheduled for Wednesday, January 7, 2025.

Meeting notes prepared by Kathy Lyndon