

January 8, 2020

To: Mayor Ted Wheeler
Commissioner Jo Ann Hardesty
Commissioner Mingus Mapps
Commissioner Carmen Rubio
Commissioner Dan Ryan

Re: Serious Concern for the Proposed Bureau of Development Services Budget Cuts and Staff Reductions

Mayor and Commissioners:

Our organizations represent thousands of companies and tens of thousands of women and men who work in the development, construction and property management industries. We call on the City of Portland to help stabilize construction critical housing and commercial space production by preventing staff layoffs at the Bureau of Development Services and protect the thousands of related industry jobs.

We are deeply concerned about **a new threat to economic recovery in 2021: Profound staffing cuts at the Bureau of Development Services (BDS) that will impede the bureau's ability to keep up with a recovering development and construction industry.**

A reduction in BDS's workforce will hurt Portland's ability to attract private investment and development—right when we need it most. Keeping BDS at full capacity and avoiding as much staff reduction as possible is key to keeping housing production on track and generating future bureau and tax revenue.

We recognize that the bureau—which has done an incredible job of pivoting to do business in entirely new ways during this pandemic—is struggling financially. The Bureau of Development Services has needed to draw on financial reserves to mitigate reduced fee revenue throughout the pandemic. This revenue reduction is happening at the same time bureau costs have increased—including a \$3.2 million jump in BDS's rent this fiscal year due to a change in Citywide policy.

To slow the drawdown, BDS is considering a deep 17% cut to the bureau's budget—\$9M, representing 60 of 358 FTE.

Reduced service levels will also needlessly delay production of the deeply affordable housing voters have twice invested in at the ballot.

And once cut back, the bureau cannot rebound as quickly as a recovering construction industry can; it will take years to climb back to adequate bureau service levels, even when revenues return, given the time it takes to recruit, hire, and train staff. Institutional knowledge and gains in diversification of the bureau's workforce will be lost, as we saw during the Great Recession.

At BDS' Financial Advisory Committee meeting on January 5, a panel of local experts reviewed the bureau's market forecasts. Three of the advisors reinforced what we are witnessing on the ground: **The biggest barrier to a rebound in Portland's levels of development activity is plummeting investor confidence in our city, which has little to do with the pandemic.** The [Emerging Trends in Real Estate report](#)'s annual ranking of U.S Markets to Watch put Portland at #66 of 80 for 2021; that's a drop from #20 in 2020 and #3 in 2017.

One financial advisory committee member, Portland State University Economics Chair and former state economist Tom Potiowsky, noted that there's really no comparison of "an area that has so quickly fallen into disfavor" as Portland has. ECONorthwest's Director of Analytics Mike Wilkerson noted that financial modeling can't accurately reflect the "investors won't invest" problem that Portland is facing and added that our city "will have an impediment to growth until that's resolved."

Slashing BDS' workforce and hindering permit processing will only reinforce investors' concerns about the Portland market.

We are calling on Council to intervene immediately. Significant BDS layoffs threaten to touch off a downward spiral, reducing service levels and increasing permitting timelines, both of which create uncertainty that can hamper recovery in the housing and office development and construction industries—and in turn reduce BDS' ability to rebound.

In order to ensure that BDS is able to avoid further harmful layoffs, we recommend the following two items.

1. The City should defer the rental increases on the 1900 Building for two years. Doing so will save the Bureau over \$6,000,000, which will mitigate increased staffing reductions. Additionally, the City's current forecast shows a two-year economic stabilization and recovery. This means that a two-year rental increase deferral will ensure that the Bureau is in a better position financially to pay the increase in 2023. The City has rightly called on Salem and Washington D.C. to take meaningful steps to protect residential and commercial tenants during the pandemic. It should afford the same support to BDS and refrain from dramatically increasing rental prices until the economic outlook has stabilized.

2. The City should provide a one-time cash infusion into the Bureau's budget. Unlike other cities, which have pivoted from the boom and bust permit-based funding model, Portland still relies overwhelmingly on fees to cover BDS's budget. This means that during economic downturns, when construction slows, the Bureau is forced into draconian staffing reductions. Due to these reductions, the City is then unable to keep up with demand when the economy turns around. This places Portland at a disadvantage compared with other local jurisdictions - such as Beaverton - who are able to maintain staffing levels during an economic downturn. Additionally, it leads to significant permitting timeline increases, which inhibits the ability of builders to deliver new needed housing to Portland families. Even a modest one-time

cash infusion of \$3,000,000 will help stabilize BDS' budget and prevent further harmful staffing reductions and save 24 FTE.

Taking these steps is a prudent short-term response and will place the City in a better position to better understand the likelihood of federal assistance under the Biden-Harris Administration.

We have seen the severe and lasting impacts of a BDS boom-bust staffing cycle before. During and after the Great Recession, declining revenue forced BDS to cut its staff by more than half—from 315 staff to 147 between 2009 and 2010. It took years to rebuild the workforce, and Portland's housing production pace suffered:

- From 2011 to 2012, as greater Portland was recovering from the recession, the number of proposed apartment buildings submitted for permits more than doubled (and units within those projects tripled); single family home permit applications peaked in 2014 at levels not seen since 2007.
- As permit applications were picking back up, BDS noted in a 2011 Spring BuMP update that the bureau was “struggling to meet the workload demands.”
- But BDS did not have sufficient revenue to start re-growing its workforce until FY11-12, and did not return to pre-recession staffing levels until FY 15-16.
- Meanwhile, the median number of days to issue a permit for complex multifamily projects more than doubled between 2011 and 2017, from 158 days to 367 days.

Over the same time period, Portland fell behind on housing production, according to the 2020 Value of Jobs Housing Affordability Report: “our region has produced 23% fewer new units compared to the U.S. average, from 2010 to 2018...the fewest housing units over any 10-year period since World War II.” Our region's housing supply did not keep pace with population growth over the past decade, and housing costs have risen steeply as a result.

With economic recovery on the horizon, your leadership is needed to avoid a repeat of this volatile and damaging cycle. Council must work with BDS leadership to maintain the bureau's staffing levels.

Portland cannot afford to get in the way of our own recovery—especially when it comes to the housing market, where we're starting from behind. Too many renters were severely cost-burdened going into the COVID crisis, and homeownership is out of reach to a growing number of Portlanders. According to the latest RMLS Market Action report, we have a historic low one month of inventory. (Inventory of months is calculated by dividing the number of Active Residential Listings at the end of the month in question by the number of closed sales for that month. This includes new and under construction homes.)

As we work to ensure all Portlanders have a stable and affordable home, we must think short and long term—and recognize that actions the City does or doesn't take today will impact housing supply and affordability for years to come. The City must maintain stability at BDS to support near-term recovery and jobs and strengthen Portland's ability to meet the community's housing needs in the coming years.

We look forward to meeting with you at your earliest convenience to discuss this critical issue.

Sincerely,

