

**Ordinance regarding
Development Services Technology Advancement
Explanation of Exhibits
October 27, 2010**

Cover Memo from Paul L. Scarlett

Memo from BDS Director outlining background and explanation of proposal

Exhibit A: Report from Committee to Review BDS Financial Model and Projections

Report from advisory committee detailing their recommendations and endorsement.

Exhibit A, Attachment A: Estimated Programmatic Revenue Growth Assumptions

BDS staff developed two Five-Year Financial Plan Scenarios: base scenario and worst case scenario. Both scenarios show that BDS can meet its debt obligations to cover project costs. Projected staff increases over next five years are shown along with the estimated number of employees that the bureau would avoid hiring if the new IT system were in place.

Exhibit B: Efficiencies

Itemized list of efficiencies to be realized under the new permitting software.

Exhibit C: Preliminary Cost Estimates (including costs to other bureaus)

Estimated costs of the system. Costs have not yet been negotiated and are therefore not finalized.

Exhibit D: Description of Preliminary Cost Estimates

Detailed description of project costs.

Exhibit E: Cost/Benefit Analysis

Summary of findings of cost/benefit analysis showing that there will be additional net costs from Fiscal Year 2010-11 through Fiscal Year 2014-15. Savings to the bureau begin to exceed costs in FY 15-16 and continue through FY 21-22 (the expected life of the system).

Exhibit F: Recommendation from OMF Debt Management

OMF Debt Management is proposing a line of credit as the financing structure for this project. However they have expressed concern that, without economic recovery, there could be potentially significant financial burdens on the Bureau and may ultimately force the General Fund to assume responsibility for the debt.

Exhibit G: Recommendation from the Office of Management and Finance

OMF concurs with the findings and recommendations of the Committee and believe that the budget note requirements have been met. They recommend that BDS continue to monitor their finances to ensure that BDS can meet its debt obligation.

Exhibit H: Recommendation from the Bureau of Technology Services

BTS fully supports the Development Services Technology Advancement Plan. BTS has actively contributed in the evaluation of a new system to manage plan review and permitting processes, including participation from Portland Bureau of Transportation, Bureau of Environmental Services, Water and Fire.

improved accessibility and functionality. Other jurisdictions who have implemented the system have seen 8 - 10 % increase in efficiency for their programs.

Many customers will be able to conduct business with BDS online without needing to come to the Development Services Center. They will be able to retrieve inspection results in real time, submit plans online, and receive electronic notification when steps in the plan review and inspection processes are completed.

All of the development services bureaus (Water, Environmental Services, BDS) will gain efficiencies for their field inspectors because the inspectors will be able to enter inspection results in the field and have automated routing. Plans will be "routing" electronically, saving physical transport of the plans.

See Exhibit B for a more detailed explanation of efficiencies of the system.

Financial Projections:

At the recommendation of the advisory committee, BDS staff developed two scenarios: base scenario and worst case scenario. Under either scenario, BDS would be able to meet its debt service requirements. The repayment of debt would begin once the bureau reaches its targeted minimum reserve goal which is 10% of annual expenditures, anticipated to be in FY 2013-14. Under both the base case and worst case scenarios, the repayment is expected to commence in FY 2013-14 and be fully repaid by the June 2015.

Cost Benefit Analysis:

As illustrated above, there are many efficiencies to be gained by implementing a new online permitting system. Overall BDS will not need to hire as many staff to accomplish its work. Avoiding these costs will enable the bureau to direct its financial resources towards the new system and rebuild its resources. And we estimate that beginning in Fiscal Year 2015-16, there will be savings through the expected life of the project, mostly due to decreased number of new positions added to the bureau's budget.

Intergovernmental Agreement with State of Oregon, Building Codes Division

BDS will partner with the State of Oregon to be a full service jurisdiction within their eBuildings Permitting system. An intergovernmental agreement (IGA) will be negotiated that covers the design, migration and implementation of the City of Portland case review and permitting functions within the State system, and the appropriate resource assignments and availability. The agreement will set the expectations for both parties for use of the shared system, including system update requirements, system change management, the management of integrated and non-integrated areas, etc. The IGA will be for services only; funding is already covered through the State surcharge BDS collects from permit applicants.

Master Software License, Software Maintenance and Professional Services Contract with Accela Inc.

BDS will enter into a sole source contract with Accela Inc. for the additional Accela Automation software licenses and maintenance that are required beyond those covered by the State of Oregon eBuilding Permitting system. The contract will also cover professional services for the design, migration and implementation beyond that provided under the intergovernmental agreement with the State. These additional services are necessary due to the size and timeline required for the



Office of the Director

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Memorandum

October 27, 2010

To: Mayor Sam Adams
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Randy Leonard
Commissioner Dan Saltzman

From: Paul L. Scarlett, Director *PLS*

Subject: Ordinance regarding Development Services Technology Advancement

The Bureau of Development Services (BDS) is committed to providing the highest level of service to the City's development community and citizens and is constantly exploring new and improved ways of delivering its services.

Background:

BDS has partnered with the Bureau of Technology Services (BTS) and carefully reviewed the information management system that is currently in place at the Bureau of Development Services. Discussions with several other jurisdictions across the country that are similar to Portland took place. BDS and BTS visited two jurisdictions with information management systems more advanced than ours and consistent with current technology. We have also conducted a careful review of the information management system that the State of Oregon has implemented, and continues to implement in jurisdictions around Oregon, to someday achieve a comprehensive statewide electronic system for permit issuance, inspection scheduling and result tracking. This analysis resulted in the recommendation and the funding proposal for a new permitting software system that are being brought forward for consideration.

Report from Committee to Review BDS Financial Model and Projections:

In response to the budget note, the Office of Management and Finance (OMF) convened an advisory committee made up of experts in real estate and economic forecasting to review the financial feasibility of replacing the automated permit tracking system used by the Bureau of Development Services and other development bureaus. The Committee met several times and gave OMF and BDS their insights into the current economic situation and contributed a number of sound ideas for the financial projections.

They reviewed BDS's financial plan, including economic assumptions and growth rates, and have given their support to BDS's financial plan. See Exhibit A for their detailed report.

Efficiencies:

BDS expects to see an overall increase in bureau efficiency of approximately 5-8% which in the long term will mean that there would be less staff to perform the same functions as well as

migration of the existing City of Portland case review and permitting system (TRACS) to the State Accela system.

Financing through a Line of Credit

OMF recommends that the project be financed through a five-year line of credit secured by the full faith and credit of the City. Repayment of the principal would commence once the bureau's reserves are at 10% of operating costs which is expected to occur in FY 13-14. The line is expected to be fully paid off in FY 14-15.

The preliminary one-time project implementation costs are estimated to be approximately \$5.8 million, of which \$4.4 million will be eligible for debt financing and will be covered by the line of credit. (Exhibits C and D) The determination of what costs are eligible for debt financing was made based on the City of Portland Accounting Administrative Rule FIN-6.09 - Capitalization of Computer Software Developed or Obtained for Internal Use. The following costs are eligible for debt financing and included in the \$4.4 million estimate: direct material, services, and hardware contributing to the project, payroll and payroll related costs for employees directly associated with the project, testing and installation costs, and interest costs incurred during the development process. The following costs are not covered by the line of credit and will be expensed as incurred: general and administrative costs, training costs, data conversion costs with the exception of data conversion software, and maintenance costs.

Recommendation:

Development customers, BDS and the other development bureaus are in a position to see significant improvements in accessibility to information if the existing permitting system is replaced. Even if the economy recovers at a very slow rate, BDS can still afford to meet its debt service requirements over the next five years. I recommend that City Council vote to adopt this ordinance authorizing the City to proceed with a sole source agreement with Accela, an intergovernmental agreement with the State of Oregon, and beginning the process of establishing a line of credit for this project.

Next Steps:

Upon receiving City Council approval, BDS will work closely with the Purchasing Agent and the Office of Management and Finance to negotiate a contract with Accela and an intergovernmental agreement with the State of Oregon. The Debt Manager will begin the process of establishing a line of credit. Once these steps are completed, BDS and OMF will return to City Council by January 2011 for final approval of the project.

**City of Portland
Office of Management and Finance**

**Committee to Review BDS Financial Model and Projections
Committee Recommendation**

October 22, 2010

Background

In June 2010, the City Council directed the Office of Management and Finance to convene a committee to review the financial feasibility of replacing the automated permit tracking system used by the Bureau of Development Services (BDS) and other development bureaus.

City Council wanted experts from the economic and commercial sectors to review the bureau's 5-year projections and financial plan. City Council wants to have confidence in the revenue projections and be assured that the project is financially feasible. The Committee's charge is to review the reasonableness of the forecast. The Committee is not being asked to make a recommendation on the Information Technology (IT) replacement project itself. The City Council created the Budget Note below to specify their direction.

Budget Note (City Council directive): *"As a first step towards funding a new online permitting system, Council directs the Bureau of Development Services to update its Five-Year Financial Plan for FY 2010-11 to FY 2014-15 to include a cost/benefit analysis of the new system and set aside sufficient resources to meet future debt service requirements. This analysis should take into account all of the bureaus that will use the new system. BDS must present the new Five-Year Financial Plan to Council, and Council must approve it, before BDS expends any additional funding for the new permitting system. The Council must separately approve of moving forward with the new permitting system before any expenditures are made or loans received. The CAO will also convene 5 to 7 people with expertise in commercial and residential real-estate, including a member of SBAC and DRAC, to take into consideration current and future development activity as it relates to BDS's ability to meet debt service requirements."*

The Committee

Committee includes five members with economic and real estate background and expertise:

- Nick Drum, member of PDC's Small Business Advisory Committee (SBAC)
- Eric Hovee, E.D.Hovee & Co, economic consultant
- Jerry Johnson, Johnson Reid LLC, economic consultant

- Rick Michaelson, member of BDS's Development Review Advisory Committee (DRAC) and developer, Inner City Properties, Bosco-Milligan Foundation
- Gerard Mildner, Director, Center for Real Estate, School of Business Administration, Portland State University

In addition, the following staff from the Office of Management and Finance supported the Committee's efforts:

- Ken Rust, Chief Administrative Officer
- Rich Goward, Chief Financial Officer
- Bob Tomlinson, Principal Financial Analyst

Committee members participated in three meetings in September and October 2010. They gave the bureau their insights into the current economic situation and contributed a number of ideas for the financial projections. Discussions were lively and engaging.

Economic Outlook

Committee members believe that the jury is still out on the economy and that the bureau should not count on significant recovery of real estate development activity until Fiscal Year 2012-13. In five years, growth rates will probably be more normal. However, the Committee recommended that BDS's projections should be conservative in the next year or two, because there probably will not be much change in economic growth during that time period.

Household formation is expected to increase in the next several years. Rents are starting to go up. Multifamily and apartment construction will come back first. In addition, development projects will be smaller than in the recent past, with larger projects slowly returning once employment recovers and as project financing becomes more readily available.

The bureau is currently seeing a different mix of development work than in the past. When the economy was strong, there were a number of large projects over \$10 million in valuation. Not only the number of large projects has decreased dramatically, but also the average size of these large projects has shrunk significantly. The bureau has also witnessed a radical change in composition of large projects. Currently, most of the "large projects" are either funded by the public sector or sectors of economy that were not significantly affected by the economic downturn, such as education and health care. In the past the majority of projects were funded by the private sector. Private investment into the development of large multifamily units and office construction practically came to a halt. The percentage of smaller projects has increased. As this trend continues, the bureau will not see large influxes of revenue from projects with high valuation which helped support the bureau in the past.

Forecasting Model

The forecasting model used in the development of the BDS Financial Plan relies on the forecast of major macroeconomic variables developed by the State of Oregon, Office of Economic Analysis and the Metro Regional Government. Macroeconomic variables used in producing BDS's programmatic revenue growth assumptions include:

- Consumer Price Index for Portland-Salem area
- Oregon House Price Index
- Oregon Housing Starts
- Population for Portland-Vancouver-Beaverton area
- Construction Employment for Portland-Vancouver-Beaverton area
- Total Employment for Portland-Vancouver-Beaverton area
- 30-year Fixed Mortgage Rate
- Rate on 30-year government bonds
- Gross Domestic Product Deflator
- Real Gross Domestic Product.

Upon Council's direction, in spring of 2010, the City of Portland retained Johnson Reid – Land Use Economics, an independent consulting company, to conduct a review of BDS's Financial Plan and underlying forecasting model. The review found that "the resulting revenue forecasts appear reasonable and defensible", but also recommended that "BDS pursue ongoing improvement of its forecasting model".

The bureau has also received a significant input from the Committee regarding the forecasting model. They were comfortable with the revenues projected by the current model. But they agreed with Johnson-Reid's findings. Specifically they suggested that the forecasting model could be improved by including more variables which tie the model more to the real estate market. The bureau is researching options and resources for this data and is planning to implement several improvements to the forecasting model during the development of FY 2012-13 Financial Plan.

BDS Preliminary Financial Plan

Overall, Committee members agreed that making an economic forecast in the recent environment was extremely difficult due to the construction market's recent increased volatility. Because of the economic outlook, the Committee recommended that BDS do sensitivity testing, i.e., worst case/best case scenarios. In addition the Committee suggested that BDS run regression analysis on the year-to-year changes in revenues to determine the standard deviation with the thought that BDS may be able to use these results to assist in revenue projections.

The Committee reviewed two versions of BDS's preliminary financial plan data that covered real estate development growth rates by programs (See Attachment A):

1. Base case (which is the most likely scenario) and,
2. Worst case (reduced growth projection by 5%)

The Committee was supportive of BDS's version of the Base Case scenario and believed that the growth rates included in the model are reasonable and defensible.

The Committee recommended that the Worst Case Scenario should have growth rates that are 5 percentage points less than the growth rates in the Base Case Scenario. With those growth rates, the staffing increases are also reduced in this scenario.

BDS performed the regression analysis on year-to-year program revenues and found that there are extreme variations from year to year. Not only do the variations reflect economic swings, they also include fee increases, new fees, eliminated fees and programmatic changes. The analysis is useful information in that it underlines the importance of BDS's reserves to enable the bureau to weather future economic downturns.

The Committee also expressed concern over the sensitivity of bureau's revenue inflows to projected fee increases. The committee indicated that raising fees excessively may produce a "chilling effect". It was recommended that the bureau consider that in the development of the next year's financial plan.

Both the Base Case and the Worst Case scenarios include revenue from a loan for the IT replacement project in FY 2010-11. And both scenarios show that BDS would begin to repay the loan when the reserve is at 10% of expenditures. BDS's reserve policy is that reserves generally should not dip below 10%. Fee increases are generally 8% in FY 11-12 and range from zero to 8% in the subsequent three years. Both scenarios show that BDS has the ability to repay the loan by June 2015.

Replacement of Permitting System

Although the Committee was not tasked with reviewing the feasibility of the IT replacement project, they reviewed information about the intent and outcome of the project. Other jurisdictions have seen increased efficiency after replacing their permitting system. For Portland, it is estimated that there will be overall efficiencies of approximately 5% achieved on a bureau-wide basis which will translate into reduced need for additional staff positions. In general there will be greater efficiency with smaller projects compared to larger projects.

The permitting system that is being proposed is the same as the statewide permitting system; having the City of Portland on the same platform as the rest of the jurisdictions in the State is beneficial to both customers and the City.

The Committee believes that replacing the existing permit tracking system is both feasible and crucial to the continued efficiency of the bureau.

Summary of Efficiencies of New System

Customers will be able to retrieve inspection results in real time, submit plans online, and receive electronic notification when steps in the plan review and inspection processes are completed. Many customers will find that they will not need to come to the Development Services Center to submit plans or apply for permits.

Bureaus, such as Water, Environmental Services and Development Services, will see efficiencies for their field inspectors who will be able to enter their inspection results during and/or at the end of an inspection, receive an automated list of daily inspections, and obtain their daily routing. The system will improve efficiency of plan review by allowing electronic submittal of plans, "routing" plans electronically, and providing real time communication between the customer and reviewer.

Jurisdictions who have implemented new permitting systems have experienced a noticeable downturn in productivity for up to six months while their staff adjusted to the new system. However, after the initial less productive period, each jurisdiction also noted a steady increase in productivity for the following three to six months at which time productivity statistics flattened out at a new plateau which was five to ten percent higher than it had been prior to the implementation of the new technology. BDS is therefore proposing to implement the new system at its slowest time of the year during the month of November or December. This timing will provide a cushion for decreased productivity to go un-noticed by the customer, while BDS conduct trainings and identifies areas that require improvements.

Overall Recommendation

The committee found that the bureau's projections for development activity in the Portland Metropolitan area are reasonable and defensible. These projections make up the base scenario on for FY 2010-11 through FY 2014-15. The worst case scenario was developed based on recommendations from the committee members.

The Committee has reviewed both the base (most likely) and the worst case scenarios of bureau's financial plan and determined that under both scenarios the bureau is able to meet its debt service requirements. The repayment of debt would begin once the bureau reaches its targeted minimum reserve goal which is 10% of annual expenditures. Under both the base case and worst case scenarios, the repayment is expected to commence in FY 2013-14. The debt is expected to be fully repaid by the end of FY 2014-15.

Both the financial plan and the anticipated improvements to the bureau's operation as a result of pursuing the IT replacement plan were reviewed extensively, and a solid and positive endorsement of these focused areas was reached by all members of the Committee. In addition, the Office of Management and Finance endorsed the work reviewed by the Committee.

**Bureau of Development Services
Estimated Programmatic Revenue Growth Assumptions
Technology Advancement Project**

**EXHIBIT A
ATTACHMENT A**

BASE CASE SCENARIO

Table 1. Programmatic Growth Rates - Base Scenario - Local - Base Scenario

The Programmatic Revenue Growth Rates presented in Table 1 were developed using the methodology described in the bureau's Five-Year Financial Plan (FY 2010-11 through FY 2014-15), pages 9-17, and Appendix B (page 31). The growth rates were updated using the latest September 2010 State of Oregon, Office of Economic Analysis forecast. The original growth rates are presented in Appendix B (page 31) of the Five-Year Financial Plan. The growth rates do not incorporate any fee increases.

Program	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Building/Mechanical	1.3%	4.7%	7.3%	9.2%	6.7%
Electrical	-0.3%	4.6%	7.9%	9.7%	7.2%
Plumbing	-0.3%	4.6%	7.9%	9.7%	7.2%
Facilities Permits	0.8%	4.7%	7.5%	9.3%	6.9%
Site Development	1.1%	4.6%	7.3%	9.2%	6.7%
Environmental Soils	-0.1%	2.5%	3.7%	3.4%	3.3%
Signs	0.8%	1.8%	2.4%	2.4%	2.3%
Zoning Enforcement	-0.7%	3.6%	6.2%	7.5%	6.1%
Noise	1.0%	1.8%	2.1%	2.2%	2.1%
Neighborhood Inspections	-0.7%	2.6%	4.4%	4.8%	4.4%
Land Use Services Case Review	0.0%	4.2%	6.8%	9.4%	6.4%
Land Use Services PZ	0.4%	4.6%	7.6%	9.4%	6.9%

Table 1A. Changes in Staffing Levels - Base Scenario

	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	Total
New Positions ¹	5	16	19	13	5	58
Decreased Need in New Positions due to IT Project ²	-	-	(1)	(6)	(2)	(9)
Net Additions ³	5	16	18	7	3	49

* Number of BDS employees as of September 1, 2010 is 148.

1. Estimate of number of new positions added to the bureau's workforce by fiscal year based on the projected increase in workload and revenues, in the absence of new Permit Tracking System or significant upgrades to the existing system.

2. Number of new positions not needed due to efficiencies achieved through utilization of new Permit Tracking System or significant upgrades to the existing system.

3. Net number of new positions added to the bureau's workforce given projected increase in workload and revenues, as well as efficiencies achieved through utilization of new Permit Tracking System or significant upgrades to the existing system.

Table 1B. Bureau Overall Cumulative Reserves - Base Scenario

	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Programmatic Expenditures ⁴	\$26,744,756	\$29,307,546	\$32,327,964	\$33,977,184	\$35,027,963
IT Project Costs Funded by Line of Credit ⁵	\$ 1,377,055	\$ 2,070,191	\$ 974,662		
Line of Credit Repayment ⁶				\$ 2,210,954	\$ 2,210,954
Total Expenditures	\$28,121,811	\$31,377,737	\$33,302,626	\$36,188,138	\$37,238,917
Bureau Revenues ⁷	\$26,738,969	\$29,629,819	\$33,133,371	\$37,423,078	\$41,353,949
Proceeds from Line of Credit ⁸	\$ 1,377,055	\$ 2,070,191	\$ 974,662		
Total Revenues	\$28,116,024	\$31,700,010	\$34,108,033	\$37,423,078	\$41,353,949
Cumulative Reserve	\$ 526,525	\$ 848,798	\$ 1,654,205	\$ 2,889,145	\$ 7,004,177

4. Programmatic Expenditures include personal, material and services costs necessary to maintain bureau's core functions, as well as portion of IT project costs not covered by the line of credit. For details refer to Exhibits C and D.

5. Includes costs of IT project covered by the line of credit. For details refer to Exhibits C and D.

6. The Bureau is expected to repay the line of credit in two installments in FY 13-14 and FY 14-15.

7. Bureau Revenues include revenue from fees and charges, as well as interagency and general fund revenues.

8. Includes proceeds from line of credit to cover the capital portion of the IT project. For details refer to Exhibits C and D.

**Bureau of Development Services
Estimated Programmatic Revenue Growth Assumptions
Technology Advancement Project**

**EXHIBIT A
ATTACHMENT A**

WORST CASE SCENARIO

Table 2. Programmatic Growth Rates - Base Scenario - Local - Worst Case Scenario

The Programmatic Revenue Growth Rates displayed in Table 2 represent the Worst Case Scenario and are calculated as rates in Table 1 adjusted minus 5%, with the exception of Noise, Environmental Soils, and Signs programs. The rates for these three programs were adjusted by 1%. The lower programmatic growth rates ultimately result in addition of fewer positions in future years for all programs.

Program	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Building/Mechanical	1.3%	-0.3%	2.3%	4.2%	1.7%
Electrical	-0.3%	-0.4%	2.9%	4.7%	2.2%
Plumbing	-0.3%	-0.4%	2.9%	4.7%	2.2%
Facilities Permits	0.8%	-0.3%	2.5%	4.3%	1.9%
Site Development	1.1%	-0.4%	2.3%	4.2%	1.7%
Environmental Soils	-0.1%	1.5%	2.7%	2.4%	2.3%
Signs	0.8%	0.8%	1.4%	1.4%	1.3%
Zoning Enforcement	-0.7%	-1.4%	1.2%	2.5%	1.1%
Noise	1.0%	0.8%	1.1%	1.2%	1.1%
Neighborhood Inspections	-0.7%	-2.4%	-0.6%	-0.2%	-0.6%
Land Use Services Case Review	0.0%	-0.8%	1.8%	4.4%	1.4%
Land Use Services PZ	0.4%	-0.4%	2.6%	4.4%	1.9%

Table 2A. Changes in Staffing Levels - Worst Case Scenario

	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	Total
New Positions ¹	5	5	7	7	4	28
Decreased Need in New Positions due to IT Project ²	-	-	(1)	(6)	(2)	(9)
Net Additions ³	5	5	6	1	2	19

* Number of BDS employees as of September 1, 2010 is 148.

1. Estimate of number of new positions added to the bureau's workforce by fiscal year based on the projected increase in workload and revenues, in the absence of new Permit Tracking System or significant upgrades to the existing system.
2. Number of new positions not needed due to efficiencies achieved through utilization of new Permit Tracking System or significant upgrades to the existing system.
3. Net number of new positions added to the bureau's workforce given projected increase in workload and revenues, as well as efficiencies achieved through utilization of new Permit Tracking System or significant upgrades to the existing system.

Table 2B. Bureau Overall Cumulative Reserves - Worst Case Scenario

	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Programmatic Expenditures ⁴	\$26,713,896	\$28,003,380	\$29,646,977	\$30,513,914	\$31,316,346
IT Project Costs Funded by Line of Credit ⁵	\$ 1,377,055	\$ 2,070,191	\$ 974,662		
Line of Credit Repayment ⁶				\$ 2,210,954	\$ 2,210,954
Total Expenditures	\$28,090,951	\$30,073,571	\$30,621,639	\$32,724,868	\$33,527,300
Bureau Revenues ⁷	\$26,738,969	\$28,369,731	\$30,392,730	\$32,888,407	\$34,784,028
Proceeds from Line of Credit ⁸	\$ 1,377,055	\$ 2,070,191	\$ 974,662		
Total Revenues	\$28,116,024	\$30,439,922	\$31,367,392	\$32,888,407	\$34,784,028
Cumulative Reserve	\$ 557,385	\$ 923,736	\$ 1,669,489	\$ 1,833,028	\$ 3,089,756

4. Programmatic Expenditures include personal, material and services costs necessary to maintain bureau's core functions, as well as portion of IT project costs not covered by the line of credit. For details refer to Exhibits C and D.

5. Includes costs of IT project covered by the line of credit. For details refer to Exhibits C and D.

6. The Bureau is expected to repay the line of credit in two installments in FY 13-14 and FY 14-15.

7. Bureau Revenues include revenue from fees and charges, as well as interagency and general fund revenues.

8. Includes proceeds from line of credit to cover the capital portion of the IT project. For details refer to Exhibits C and D.

**Bureau of Development Services
Estimated Programmatic Revenue Growth Assumptions
Technology Advancement Project**

**EXHIBIT A
ATTACHMENT A**

FEE INCREASES

Table 3. Projected Fee Increases by Program ALL Scenarios

Program	FY 10-11	FY 11-12*	FY 12-13*	FY 13-14*	FY 14-15*
Building/Mechanical	8.0%	8.0%	5.5%	5.5%	5.5%
Electrical	8.0%	8.0%	8.0%	6.5%	6.5%
Plumbing	8.0%	8.0%	8.0%	8.0%	8.0%
Facilities Permits	8.0%	8.0%	4.0%	4.0%	0.0%
Site Development	8.0%	5.0%	0.0%	0.0%	0.0%
Environmental Soils	12.0%	70.0%	20.0%	20.0%	20.0%
Signs	8.0%	8.0%	8.0%	8.0%	8.0%
Zoning Enforcement	8.0%	8.0%	3.0%	0.0%	0.0%
Noise	8.0%	8.0%	8.0%	8.0%	8.0%
Neighborhood Inspections	8.0%	8.0%	8.0%	8.0%	8.0%
Land Use Services Case Review	8.0%	8.0%	0.0%	0.0%	0.0%
Land Use Services PZ	8.0%	8.0%	0.0%	0.0%	0.0%

* Fee Increases presented above are subject to change and will be revised during the development of the FY 11-12 Financial Plan that is due on February 1, 2011. No fee increases for certain programs reflect programs achieving cost recovery and reserve goals. If these goals are not met in the future, the bureau will revise fee increases for these programs.

Bureau of Development Services
Development Services Technology Advancement Project
Efficiencies by Program
October 28, 2010

The Development Services Technology Advancement Project will be of benefit to customers and will increase efficiency in all of the development bureaus: Bureau of Development Services, Bureau of Transportation, Portland Fire & Rescue, Bureau of Environmental Services, and Water Bureau. The functions of plan review, inspections, and permit processing will all be improved by implementing this new system.

Benefits to Customers:

One of the primary reasons for the implementation of a new technology system is the customer. Customers will be able to submit plans online, receive electronic updates on their project submissions, research property information, and access the status of their plan review online. They will also be able to pay online for more functions, request inspections, and make updates to inspection requests.

All of these improvements will assist customers insofar as they will save costs of making copies of sets of plans and need not come to the Development Services Center for many of their needs.

One of the major benefits described by other jurisdictions who have implemented similar systems is the automated messaging system. When a process is completed or an action on a permit or application takes place, automated messages are sent to customers electronically alerting them to the fact that an action has been taken on their application or permit. This may be the approval by one of the reviewing entities, the completion of an inspection, the generation of a checksheet or the issuance of the permit. No information was available from the jurisdictions surveyed on the savings to the customer in terms of time for not having to come into the jurisdictions public counter or calling the jurisdiction on the phone. Each jurisdiction did confirm that customers had very positive feedback about the automated messaging system. There were numerous comments on the savings of time and frustration by both staff and customers.

Plan Review Improvements/Efficiencies:

- **Automated Notification System:** The system will send electronic messages automatically upon the closing of a plan review process notifying the customer of progress. This will save considerable time that staff currently spends answering phone calls for plan review status by office staff and field staff alike.

- **Electronic Plans Review Function:** Staff will no longer have to request physical delivery of paper plans nor will anyone need to deliver the plans. Staff will no longer need to spend time scanning paper plans and attaching the scanned electronic plans into the computer tracking system. This is true for plans submitted as part of a building permit application, plans submitted for a land use review application, as well as final plats for land divisions. Plans will be instantly available electronically as soon as the project is assigned to a staff member. Efficiency will be gained as coordination is improved, by the different agency reviewers all being able to see the electronic mark-ups on the plans that other reviewers are making, thereby being able to identify problems/conflicts quickly, and find solutions with the customer. This is true for building permit plan review, land use reviews, and final plats. Staff will not need large plans tables for unrolling paper plans. Plan review staff will be provided with a 32-inch monitor in addition to their primary computer monitor to perform plan reviews electronically. Customers will be electronically notified when a status change for their plan review or checksheets are available online.
- **Elimination of paper from the process:** The new system will remove the necessity to print reports, requests, or any other document currently being printed to accomplish plan reviews. These documents can remain digital throughout the process unless customer needs dictate otherwise.

Field Inspection Improvements/Efficiencies:

- **Automated Work Assignment:** Field inspection staff will no longer have to come into the office to get work allocated/decided. Inspectors will have the appropriate amount of work assigned and mapped so that they have the most efficient routing and smallest geographical area to travel resulting in less wasted fuel and vehicle use.
- **Automated Notification System:** The system will send electronic messages automatically upon the completion of an inspection or the closing of a plan review process notifying the customer of progress. This will save considerable time currently spent answering phone calls for inspection results by office staff and field staff alike.
- **Improved Customer Services:** Inspectors will be able to email documents (eg, deficiency notice, certificate of occupancy) directly to the contractor or property owner in the field.
- **Assigning Work "Just-In-Time":** Incoming urgent requests will be assigned to the nearest qualified inspector. This will be determined by the workforce management system which will know where each inspector is physically out in the field. The assignment will occur instantly upon entry and will update the inspector's task list.
- **Elimination of paper from the process:** The new system will remove the necessity to print reports, requests, or any other document currently being printed to accomplish field inspections or plan reviews. These documents can remain digital throughout the process unless customer needs dictate otherwise.

Permit Processing Improvements/Efficiencies:

The Bureau of Development Services is basically the center of the permitting process. Significant efficiencies will be realized by the Permitting Services Section of the Plan Review and Permitting Services Division in the following areas:

- **No more physical transportation of paper plans:** Permitting Services employees will no longer have to physically deliver plans to work groups upon request, nor will they have to pick those plans up upon completion of the plan review.
- **No more disassembly and reassembly of paper plans:** Permitting Services currently is responsible for manually transferring notes from plan to plan to create the complete and final set of approved plans. The new system will keep all comments and corrections made on the plans and will provide a final set of approved plans with all notes from all reviewing groups including their stamps of approval.
- **Historical records available in one location electronically:** Part of the information technology advancement project will be to digitize all historic records. The staff time that has been spent physically retrieving these records from those storage areas can now be spent on other tasks. Currently records are stored in several different locations; the space that is currently used for paper, micro-film and micro fiche storage will no longer be necessary. Upon project completion, all records will be available for viewing on line, and there will be computer stations in the Development Services Center for customers to search for historic information on properties and buildings.

Land Use Review Improvements/Efficiencies:

- **Improve coordination with other bureaus reviewing land use review plans and final plats:** Since land use review and plat review will be online, issues can be identified quickly during the review process and then resolved with other bureaus and the customer.
- **Online submission of Final Plats and Land Use Reviews:** Customers will be able to submit final plats and land use reviews online, therefore, eliminating the time needed to visit the bureau or Development Services Center, scan documents, and attach them electronically in the computer system.

Implementation Impact and Learning Curve:

Although there will ultimately be increased efficiency, there will also be impacts of implementation that will affect customers and bureaus.

Each jurisdiction that was visited, and many other jurisdictions that were contacted, all described a period of time, generally three to six months, immediately after implementation of their new

systems during which productivity decreased. When asked for specific percentages of loss in productivity the responses varied. Suffice it to say that each jurisdiction experienced a noticeable downturn in productivity for up to six months while their staff adjusted to the new system. After the initial less productive period, each jurisdiction also noted a steady increase in productivity for the following three to six months at which time (six to twelve months after implementation) productivity statistics flattened out at a new plateau which was five to ten percent higher than it had been prior to the implementation of the new technology.

It is for this reason that we and many of the jurisdictions we contacted propose to implement new technology at the slowest time of the year. Our proposal implements the new system late in the calendar year during the month of November or December. During this time, business is at its slowest and provides a cushion for decreased productivity to go un-noticed by the customer, while we are able to conduct training and identify areas that require improvements.

Although there will be a decrease in the over-the-counter customer service support with the implementation of new information system, there will also be an associated increase in online customer service support required (positions have been identified for this in the project budget/cost estimate) for the online system both in responding to e-mails, answering the phone, and potentially live online chat with customer service staff.

**Bureau of Development Services
Technology Advancement Project
Preliminary Cost Estimates**

EXHIBIT C

Costs have not yet been negotiated and are therefore not finalized.

Table 1. Technology Advancement Project - Summary of Project Costs - BDS¹

	Cost Description	Amount
One-Time Implementation Costs (2 years) - Covered by the Line of Credit	Vendor Services	\$ 1,258,990
	Vendor Software	\$ 256,980
	BTS/BDS Staffing	\$ 1,552,430
	BTS/Services/Interfaces	\$ 95,000
	Document Management System	\$ 100,000
	BTS/Hardware	\$ 153,000
	Records Conversion - Hardware	\$ 130,000
	Total Interest Costs (first 2 years)	\$ 166,228
	Contingency (for Costs Covered by the Line of Credit)	\$ 709,280
	Subtotal - Costs Covered by the Line of Credit	\$ 4,421,908
One-Time Implementation Costs - NOT Covered by the Line of Credit	Records Conversion - Staff (4years)	\$ 1,030,367
	Total Interest Costs (last 3 years)	\$ 237,347
	Contingency (for Costs NOT Covered by the Line of Credit)	\$ 146,813
	Subtotal - Costs NOT Covered by the Line of Credit	\$ 1,414,527
	GRAND Total One-Time Project Costs	\$ 5,836,435
Ongoing Costs (average per year post go-live)	New System Maintenance	\$ 59,497
	BTS/Telco leased line	\$ 12,922
	Document Management System Maintenance	\$ 20,600
	State Hosting Costs for Additional Modules	\$ 59,497
	Support/Customer Service Staff (post go live)	\$ 232,204
	Total	\$ 384,721

Table 2. Technology Advancement Project - Summary of Project Costs - Other Bureaus²

	Cost Description	Amount
Portland Bureau of Transportation (PBOT)	Staff/Professional Services ³	\$ 376,000
	Records Conversion ⁴	\$ 250,000
	BTS/Hardware ⁵	\$ 47,500
	Total Contingency	\$ 244,700
	Total PBOT	\$ 918,200
Bureau of Environmental Services (BES)	Staff/Professional Services ³	\$ 375,000
	BTS/Hardware ⁵	\$ 37,200
	Total BES	\$ 412,200
Fire Bureau	Records Conversion ⁴	\$ 35,000
	BTS/Hardware ⁵	\$ 34,100
	Total Fire Bureau	\$ 69,100
Water Bureau	BTS/Hardware ⁵	\$ 4,800
	Total Water Bureau	\$ 4,800
	Total Other Bureaus	\$ 1,404,300

Notes:

1. For description and additional details on BDS IT Improvement Project costs refer to Exhibit D.
2. Estimates of project costs were provided by respective bureaus.
3. Includes cost of additional city personnel and vendor services required to complete the project over the two-year period.
4. Includes cost of additional city personnel and hardware required to complete conversion of existing records.
5. Includes cost of additional/new hardware (monitors and notebooks) compatible with the new system.

Exhibit D

**Bureau of Development Services
Technology Advancement Project
Description of Preliminary Cost Estimates**

October 26, 2010

Costs have not yet been negotiated and are therefore not finalized.

One-time Project Implementation Costs (\$5,836,435)*

The one-time costs of Technology Advancement Project are separated into two distinctive groups: costs covered by the line of credit and costs not covered by the line of credit. The determination of what costs are eligible for debt financing was made based on the City of Portland Accounting Administrative Rule FIN-6.09 - Capitalization of Computer Software Developed or Obtained for Internal Use. The following costs are eligible for debt financing and included in the \$4.4 million estimate: direct material, services, and hardware contributing to the project, payroll and payroll related costs for employees directly associated with the project, testing and installation costs, and interest costs incurred during the development process. The following costs are not covered by the line of credit and will be expensed as incurred: general and administrative costs, training costs, data conversion costs with the exception of data conversion software, and maintenance costs.

The split has been reviewed by the City Treasurer, City Controller, and Accounting Policy Manager. As expenses are incurred, billings will be carefully reviewed to determine which expenses can be reimbursed from the line of credit

* Total one-time project implementation costs include total of \$856,093 in operating contingency.

One-Time Costs Covered by the Line of Credit (\$4,421,908)

1. **Vendor Services (\$1,258,990):** professional services provided by the vendor, including system configuration, data interface, script development, data conversion analysis and development, interfaces, technical training, acceptance testing, production support, and project management. Additional details and statement of work available upon request.
2. **Vendor Software (\$256,980):** software licenses for unlimited number of users.
3. **BTS/BDS Staffing (\$1,552,430):** personal and material and services costs for 7 additional limited term positions fully dedicated to project implementation. Job classifications are currently being finalized.
4. **BTS Services/Interfaces (\$95,000):** costs associated with BTS project management costs for large project management, BTS CGIS for setting up Accela GIS interface, SAP team for setting up Accela SAP interface, BTS network team for setting up dedicated network connection to Accela/State hosted at their Utah data center, Flex services contract to implement an electronic queuing system in the Development Services Center.
5. **Document Management System (\$100,000):** cost associated with purchasing a new or sharing an existing City of Portland document management system.

Exhibit D

6. **BTS/Hardware (\$153,000):** costs associated with Telcomm/Satcomm hardware for connection to Accela/State hosted at Utah data center, 32" monitors, laptop/toughbook, printers, mounts, wireless connections.
7. **Records Conversion – Hardware (\$130,000):** costs associated with purchasing of Conversion Machinery/Equipment and Cataloguing System.
8. **Interest Cost (\$166,228):** estimated interest costs incurred during project development stage.
9. **Contingency at 20% of Expenses. (\$709,280):** The bureau is planning to set aside approximately 20% of project costs covered by the line of credit to account for any unexpected cost overruns or additional costs.

One-time Costs NOT Covered by the Line of Credit (\$1,414,527)

1. **Records Conversion Staff (\$1,030,367):** personal and material and services costs for 3 FTE over four year period required to transfer existing bureau paper records into an electronic format.
2. **Interest Cost (\$237,347):** estimated interest costs incurred after project's go-live date.
3. **Contingency (\$146,813):** The bureau is planning to set aside approximately 20% of project costs incurred over the two year implementation phase and not covered by the line of credit to account for any unexpected cost overruns or additional costs.

Average Annual Ongoing Costs Post Go-Live (\$384,721)

1. **New System Maintenance Costs (\$59,497):** annual maintenance costs for additional modules, not covered by the State of Oregon – Accela agreement. These modules include: Planning Land Management Site License Annual Maintenance and Support, Code Land Management Site License Annual Maintenance and Support, Public Works Asset Management Site License Annual Maintenance and Support, Fire Land Management Site License Annual Maintenance and Support.
2. **BTS/Telco Leased Line (\$12,922):** costs associated with the leased line network connection to State/Accela hosting data center in Utah.
3. **Document Management System Maintenance (\$20,600):** costs associated with the annual maintenance of the Document Management System.
4. **State Hosting Costs for Additional Modules (\$59,497) (see #1):** costs not covered by the State of Oregon – Accela agreement.
5. **Support/Customer Service Staff (\$232,204):** personal and material and services costs for 2 FTE required to provide ongoing support to external and internal customers.

Bureau of Development Services
Summary of Cost Benefit Analysis regarding
Development Services Technology Advancement Project
 October 28, 2010

Background

As part of budget note, City Council requested that a cost/benefit analysis be done. The bureau thoroughly reviewed existing and projected costs of retaining the current permitting system versus implementing the Accela software.

Basis of Analysis

- The cost/benefit analysis is based on the following:
- Compare new system to retaining/maintaining current system
- Typical life span of an IT system is 10 years once installed
- Implementation is 2 years over three fiscal years
- No additional future program upgrades are projected because
 - State of Oregon through their contract with Accela will be paying for system upgrades
 - At this time, we cannot determine if additional functionality beyond State's contract will be needed

Results of Analysis

After reviewing the costs and savings associated with the project, there will be additional net costs from Fiscal Year 2010-11 through Fiscal Year 2013-14. FY 14-15 is the "break even" year where savings are close to system costs. Savings to the bureau begin to exceed system costs in FY 15-16 and continue through FY 21-22 (the expected life of the system). The system is expected to result in efficiencies (see Exhibit B) which ultimately results in fewer positions being added to the bureau in the future as the economy recovers.

The system is expected to be fully implemented in FY 12-13. The bureau will realize the following savings in FY 13-14:

\$ 838,234 annually	Reduce by approximately 9 FTE the number of additional staff that BDS would otherwise hire as economy recovers and workload increases (See Exhibit A, Attachment A)
\$ 195,000 annually	Eliminate microfilming (all documents will be digitized.) (savings began in FY 10-11)
\$ 420,847 annually	Reduce technical staff (savings began in FY 12-13)
\$ 38,848 annually	Eliminate system software maintenance (these costs will be covered by the State of Oregon) (savings began in FY 12-13)
\$ 13,113 annually	Eliminate IVR (interactive voice response - inspection request phone-in system) maintenance (these costs will be covered by the State of Oregon) (savings began in FY 12-13)

Conclusion

If the Accela software system is implemented, over the life of the new software there is both an overall increase in bureau efficiency which will benefit customers and cost savings mostly due to decreased number of new positions added to the bureau's budget.



CITY OF PORTLAND
OFFICE OF MANAGEMENT AND FINANCE

Sam Adams, Mayor
Ken Rust, Chief Administrative Officer

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Exhibit F

DATE: October 20, 2010
TO: Paul Scarlett, Director Bureau of Development Services
FROM: Eric H. Johansen, City Treasurer *EHP*
RE: Bureau of Development Services Permit Tracking System Financing Plan

The Project

The Bureau of Development Services ("BDS" or the "Bureau") proposes to replace its automated permit tracking system. The estimated cost of the project is expected to be approximately \$5.8 million, of which all but about \$1.4 million are capitalizable costs and, therefore, eligible for debt financing. Project costs are expected to be incurred over a two-year implementation process.

Due to the continuing weakness in the local economy and a severe decline in the Bureau's development related revenues, there is currently insufficient cash flow to support the costs of the project using conventional means of financing. The financing structure proposed by the Office of Management and Finance ("OMF") is designed to defer the repayment of the debt obligation (principal and interest) until FY 2013-14 and 2014-15 when the Bureau's financial forecasts project sufficient revenues to repay the obligation in full. As such, repayment of the debt obligation is fully dependent upon a significant economic recovery over the next two years, which allows the Bureau to realize the revenues included in its financial forecast. Should these projections not be realized, it may be necessary to restructure the debt obligation or to call upon the General Fund to assume responsibility for the debt. We note that BDS did convene a committee of economic and real estate experts to review their financial projections and that the committee found these projections to be "reasonable and defensible".

Debt Financing

Based on the facts noted above, OMF recommends that, if the project is to move forward, it be financed through a five-year line of credit secured by the full faith and credit of the City in the approximate amount of \$4.5 million. Semi-annual interest payments on the line of credit will be financed with additional draws on the line of credit until such time as Bureau revenues will allow the interest costs to be paid from cash flow. Based on current market rates, OMF projects that the variable interest rate on the line of credit will begin in the 1.00-2.00% range.

Based on the Bureau's cash flow projections, repayment of the principal on the line of credit is expected to begin in FY 2013-14 and the line is expected to be fully paid off in FY 2014-15. Because the line of credit will have no fixed principal repayment schedule, the line better accommodates uncertain cash flow than fixed rate/fixed term financing. If Bureau revenues do not permit full repayment of the line of credit prior to its expiration date in early 2016, it will either be necessary to extend/restructure the line to reflect the Bureau's then current revenue projections or the General Fund may be required to repay the obligation.

Summary

The financing structure proposed by OMF Debt Management is intended to address the Bureau's lack of near-term cash flow while providing flexibility to begin repaying the obligation when Bureau revenues are projected to recover. While we believe this is the right financing structure for the project, we express no opinion as to whether the project should proceed at a time when the presumed economic recovery is not yet evident. The Bureau's ability to repay the obligation in a timely manner remains fully dependent upon a rebound in the economy that allows the Bureau's revenue projections to be realized. As such, the Bureau and Council should be aware that the funding of the project at this time involves risks that, in the absence of a moderate to strong economic recovery, will impose potentially significant financial burdens on the Bureau and may ultimately force the General Fund to assume responsibility for the debt.



CITY OF PORTLAND
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Exhibit G

MEMORANDUM

TO: Mayor Sam Adams
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Randy Leonard
Commissioner Dan Saltzman

FROM: Ken Rust, CAO, Office of Management and Finance *KLR*

DATE: October 26, 2010

SUBJECT: Committee to Review BDS Financial Model and Projections--Committee Recommendation and Final Report

COPIES: Paul Scarlett, Director, Bureau of Development Services

The City Council directed via a budget note in the FY2010-11 Adopted Budget that the Chief Administrative Officer Office convene a group of 5 to 7 people with expertise in commercial and residential real-estate, including a member of SBAC and DRAC, to take into consideration current and future development activity as it relates to the Bureau of Development Services' (BDS) ability to meet debt service requirements on funds borrowed to finance a new permitting system. The Office of Management and Finance (OMF), working closely with BDS, has convened the required Review Committee (the Committee) and over the course of several meetings reviewed the Committee's charge, financial modeling tools used by BDS to project revenues and expenses, and financial forecasts based on alternative development scenarios. A final report, including recommendations, has been prepared and has been submitted by the Committee for your review.

It is OMF's opinion that the work undertaken by the Committee addresses in full the budget note requirements described above. In addition, OMF has also participated in the Committee's meetings and review effort and concurs with the findings and recommendations of the Committee as described in its final report. However, OMF notes that continued uncertainty over the pace and strength of the economic recovery, and its impact on local building activity and BDS revenues, will require careful ongoing monitoring by BDS to ensure that the underlying debt repayment plan associated with the new permitting system is achieved as planned.

An Equal Opportunity Employer

To help ensure equal access to programs, services and activities, the Office of Management & Finance will reasonably



CITY OF PORTLAND
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MEMORANDUM

Exhibit H

October 28, 2010

TO: Mayor Sam Adams
 Commissioner Randy Leonard
 Commissioner Nick Fish
 Commissioner Amanda Fritz
 Commissioner Dan Saltzman

FROM: Mark Greinke, CTO, Bureau of Technology Services

RE: Development Services Technology Advancement Project

The Bureau of Technology Services (BTS) has actively contributed in the evaluation and selection of Accela Automation as the city's new system to manage case review and permitting processes. The system is provided by the State of Oregon and hosted by Accela, Inc. The selection was done collaboratively in partnership with the Bureau of Development Services (BDS) and included participation from the Portland Bureau of Transportation, Bureau of Environmental Services, Water and Fire.

In our evaluation, we took into consideration our capability to support the software effectively so that BTS can continue to provide outstanding service to our customers. We also took into consideration the direction set forth by our state legislators to help developers in Oregon efficiently work with multiple jurisdictions across Oregon.

The Bureau of Technology Services fully supports this technology project and looks forward to partnering with the Bureau of Development Services to successfully implement Accela.

cc: Paul Scarlett, Director, Bureau of Development Services