

## FINANCIAL PLANNING DIVISION ANALYSIS

### FY 2012-13 Budget

## Portland Development Commission

Analysis by: Tess Jordan

### I. Overview

Budget Summary	Revised FY 2010-11	Revised FY 2011-12	Request Base FY 2012-13	Request Total FY 2012-13	Percent Change
<b>Resources</b>					
Intergovernmental Revenues	0	500,000	500,000	500,000	0.0%
General Fund Discretionary	4,075,126	5,788,326	2,691,192	5,662,962	-2.2%
<b>Total Resources</b>	<b>\$4,075,126</b>	<b>\$6,288,326</b>	<b>\$3,191,192</b>	<b>\$6,162,962</b>	<b>-2.0%</b>
<b>Expenditures</b>					
External Materials and Services	4,075,126	6,288,326	3,191,192	6,162,962	-2.0%
<b>Total Requirements</b>	<b>\$4,075,126</b>	<b>\$6,288,326</b>	<b>\$3,191,192</b>	<b>\$6,162,962</b>	<b>-2.0%</b>

Percent Change is the change from FY 2011-12 Revised Budget to FY 2012-13 Total Requested Budget.

### II. Key Issues

#### Financial Forecast: Decreasing TIF

PDC forecasts just over \$111 million available for TIF projects in its FY 2012-13 Requested Budget, a very slight decline from the current fiscal year. This number describes revenues available for new or continued commitments after debt service – supporting past projects – is paid.

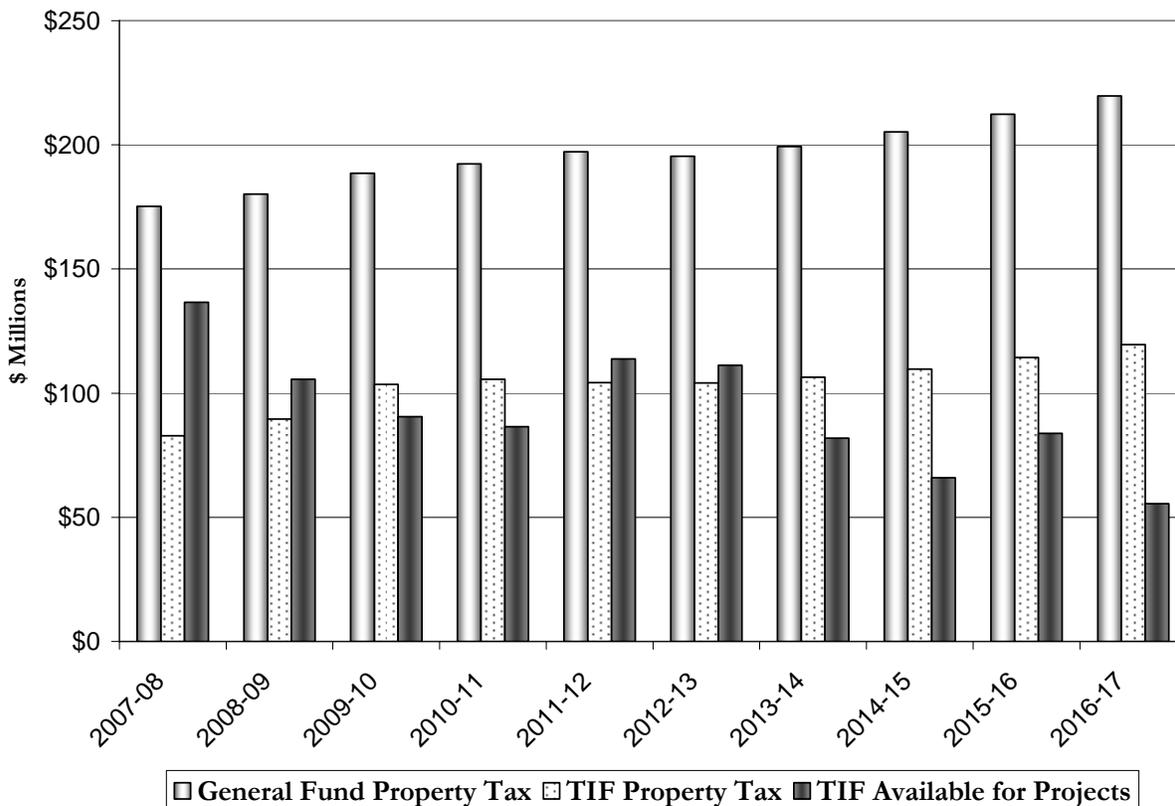
As discussed in previous FPD reviews, TIF available to support new and continued projects falls dramatically in the agency’s five-year forecast to \$55 million in FY 2016-17. Reduced resources will impact the work of PDC but also the City’s bureaus of Housing, Parks, Transportation, and Planning and Sustainability, given the amount of TIF that the agency has directed towards projects implemented elsewhere in the City.

At least over the next 10+ years, the declining TIF trajectory will be realized regardless of whether additional URAs are formed.

- URA acreage and total assessed value are each capped at 15% of the City’s total. Both acreage and indebtedness are counted within that cap until bonds are paid off, regardless of the URA expiration date (last date to issue debt). Districts that are no longer issuing debt (Downtown Waterfront, South Park Blocks, Airport Way) and districts that will soon reach the last date to issue debt (Oregon Convention Center) thus do little to change the City’s capacity to grow its URA revenue in the near-term.
- The City’s highest value properties, with the highest TIF-generation potential – primarily located downtown – have already been captured within URAs. Existing districts can be amended (with bondholder approval) to release acreage for possible reincorporation into a new district; e.g. the planned Education URA will incorporate portions of the former South Park Blocks URA following a SPB plan amendment. However, this can only occur if the district generates sufficient increment. The City currently has URA capacity for approximately 850 additional acres. It is however unlikely that it will incorporate land capable of generating its remaining \$1 billion+ in additional maximum indebtedness.

**Past actions.** PDC has been projecting TIF decline for a number of years, given district expirations and the difficulty many districts have in actually achieving their maximum indebtedness (e.g. generating TIF revenue sufficient to bond debt equivalent to maximum indebtedness). In December 2010, PDC significantly adjusted its forecast due to a declining real estate market and the bond market's requirement of a more conservative debt coverage ratio. Compression was just beginning to impact tax collections. PDC initiated a finer grain approach to TIF forecasting, as opposed to relying upon the 3% minimum growth that has been predictably realized under current property tax laws, until the current period of sustained real estate stagnation and decline. In response to the adjusted forecast the agency eliminated 22 positions, resulting in 17 layoffs in FY 2010-11. An additional 19.8 FTE positions were eliminated in FY 2009-10.

**Current model.** The agency's forecast model currently assumes a real market value decline of 5% in FY 2012-13 followed by three years of flat market value growth. For most URAs the model anticipates a constant 12% compression over the forecast period. This is not an overly conservative assumption. A more likely trajectory would be for TIF to rise above this level in the short-term and decrease again when market values rise. The TIF forecast may well be adjusted in response to compression modeling now underway by ECONorthwest; the results will support a planned River District bond issuance this spring/summer as well as support City General Fund tax forecasting.



The above chart illustrates that TIF tax revenues are projected to gradually rise, mirroring the projected increase in property taxes that flow to the City's General Fund. The URA capture rate has stabilized at approximately 35% of the total property tax revenue flows to the City of Portland. TIF available for new or continued investments, however, is a rapidly falling as TIF revenues are increasingly committed to paying off long-term bonds supporting past investments.

**Planned reductions.** PDC acknowledges the need to transform into a smaller organization. It predicts a long-term total resources budget of around \$100 million (as opposed to \$209 million in

the current fiscal year), with a goal of 50% non-TIF resources. In response to its forecast, the agency plans to reduce staffing and Materials and Services by 30% each between FY 2013-14 and FY 2016-17. This equates to roughly 40 position reductions, bringing the agency to under 100 FTE. The agency reports that position reductions are being delayed to allow for attrition and in accordance with intentions expressed in last year's bargaining to avoid immediate eliminations if possible. The agency plans to manage the organization downward throughout the five-year forecast. Program delivery costs will increase in the short-term, given that resource reduction is expected to out-pace the staffing adjustment.

**Diversifying resources.** PDC staff have been investigating alternative resources to replace at least a portion of the projected decline in TIF. This effort is in its incipient stages, and has thus far looked to other regions for best practices and possible models. Determining the best targets for resource diversification is in progress. The agency acknowledges that a \$100 million annual budget target is high for an economic development agency in comparison with jurisdictions of similar size.

### **Strategic Direction: Job Creation**

The agency assumed new leadership with the appointment of Patrick Quinton as Executive Director in spring 2011. This transition has included reaffirming the agency's primary commitment to job creation, in contrast the broader but geographically-limited focus that has historically driven URA revitalization efforts. PDC's newly released mission statement is: *PDC's mission is to create one of the world's most desirable and equitable cities by investing in job creation, innovation and economic opportunity throughout Portland.*

The aims of job creation and real estate investment/revitalization are not necessarily mutually exclusive. The agency merges them whenever possible: for instance, PDC's planned \$8.75 million investment in the Oregon Sustainability Center is intended to bolster the region's Clean Tech: Green Development industry cluster. Similarly, its \$8.1 million 0% loan for Vestas's new River District headquarters supports the Clean Tech: Clean Energy cluster. Tax increment financing – and its legal restrictions – is grounded in investments that increase property tax revenue. However, the agency's new strategic direction indicates its reluctance to invest in capital projects that do not directly benefit business growth but may serve more general goals such as livability.

At the PDC Commission budget work session in January, acknowledging both the agency's declining revenue projection and its new strategic direction, the following budget priorities were asserted:

- Reduced investment in infrastructure beyond existing commitments
- Invest rather than give funds (loans rather than grants)
- Exchange the agency's percentages spent on business development and property development (currently 13% and 34%, respectively).
- Achieve goal of stable source of dollars to invest
- Achieve goal of \$10 million annually for business and industry economic development initiatives (including personnel costs)
- Retain focus on neighborhood economic development
- Explore greater involvement of/partnership with workforce development initiatives
- Reduce administrative costs

PDC describes its current re-focusing work as exploring the most appropriate role for whatever resources are available and using a long-term employment lens to determine whether infrastructure investments are appropriate. This may mean that fewer dollars flow from PDC to support projects within the bureaus of Parks, Transportation, and Planning and Sustainability, as well as TriMet. Average annual funds directed to City bureaus over the past six years has been \$28 million –

excluding the Bureau of Housing – which is roughly equivalent to 8% of the ongoing General Fund dollars that support City functions. While PDC receives 35% of all City of Portland property taxes, its past support for infrastructure has effectively reduced its share to 25% (a significant portion of which goes to the Housing Bureau). The bureau reports that funding for City bureaus will not likely fall to \$0, but that TIF should not be a source of capital for transportation or parks projects, given its projected decline and the organization’s interest in directing the vast majority of its dollars on efforts directly related to economic development and jobs creation.

The agency intends to engage City Council in a fuller discussion of their revenue projections, potential impacts and possible additional sources to support its economic development and long-term job creation work.

### **New URA Districts in FY 2012-13**

PDC plans to adopt several new districts in the coming fiscal year: a new education URA, and six ‘micro districts’ that focus on lower growth, lower income commercial nodes in East Portland.

**Education URA.** Details for this district are still in flux. PDC hopes to bring it before City Council for adoption in late spring/summer 2012. The district would center on PSU but extend east to 1<sup>st</sup> Ave and north of the traditional PSU campus, a total of 140-150 acres. Target maximum indebtedness is roughly \$170 million. This amount would produce about \$90 million for PDC programs and administration, after issuance fees and a housing set aside of \$46 million. The latest OMF analysis estimates forgone revenue to the City over 30 years at \$66.8 million with a present value of \$18.7 million.

The URA is intended to support research, commercialization, and entrepreneurship, strengthening the link between the City’s educational institutions and the private sector within the industry clusters of Software and Clean Tech: Green Development. A second goal is to help PSU become a world class university. PSU plans for significant additional classroom space to support a doubling of its enrollment over the next 20 years. Most PSU projects are projected to be minimally TIF-subsidized. One possible exception is a proposed \$19 million subsidy for a joint PSU School of Social Work/County offices, now under discussion. Two OHSU properties south of I-405 are also included in the currently proposed boundary.

**Micro Districts.** In February 2012 PDC announced that six communities had applied and been selected to participate in the Neighborhood Prosperity Initiative (NPI). These districts are of shorter duration and smaller than traditional URAs and will not generate sufficient annual tax revenues to bond debt. Each district’s income stream will be \$1.25 million over nine years. To generate this amount, the districts encompass between 165 and 190 acres surrounding a commercial node that investments will support. The proposed districts are:

- NE 42<sup>nd</sup> Ave
- Cully Blvd
- Parkrose
- Rosewood
- SE Division St between 117<sup>th</sup> and 148<sup>th</sup> Aves
- SE Division and 82<sup>nd</sup> Ave

As with all districts adopted or altered after 2009, these districts will be subject to revenue sharing with overlapping taxing jurisdictions. Revenue sharing begins when 3% of maximum indebtedness is achieved, and increases when 10% and 25% is achieved. However, both the City of Portland and Multnomah County have agreed to return shared revenue to the districts as a grant, which has the advantage of not being tied to TIF restrictions. The City’s estimated returned revenue across all six

districts over nine years is roughly \$1.0 million. The districts will function more similarly to Main Streets than to URAs, with a non-profit corporation established for each. This model is resource-intensive and – together with the minimal TIF forecast – provides minimal funds for district investments, roughly \$115,000 per district annually.

FPD supports the agency's intention to champion PSU, given the pivotal role of education institutions in regional economic development. While the micro districts address equity objectives, FPD maintains concerns that the Main Street model planned for these districts is inefficient for the scale of both the districts and the resources available for district investment. FPD also encourages PDC to carefully monitor spending controls, given that each district's managing non-profit will be responsible for ensuring that expenditures are TIF eligible.

### **General Fund Support for PDC**

The current year's General Fund allocation to PDC is \$5.8 million, 67% larger than in FY 2010-11. This is primarily due to a three-fold increase in one-time dollars. The City's historical support for PDC over the years has been relatively small and focused on activities that are not eligible for TIF funding, such as working with target industries, marketing, and recruitment efforts. City support increased in FY 2009-10 with the bureau's adoption of the Economic Opportunities Initiative with that program's transfer from the Housing Bureau, as part of the agency's restructuring.

FPD recommendations for PDC funding packages are primarily driven by the sharp reduction in one-time dollars available citywide. A total of \$1.779 million in one-time funding is recommended, a decrease of 44% over the current fiscal year. This remains \$676,000 higher than the one-time dollars the agency received in FY 2010-11. Recommended funding is roughly divided between Traded Sector and Neighborhood Economic Development initiatives.

**City of Portland**  
 Decision Package Recommendations  
 (Includes Contingency and Ending Balance)

	Bureau Priority	Bureau Requested					FPD Analyst Recommendations				
		FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses	FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses
<b>Portland Development Commission</b>											
<i>Reductions</i>											
ZD_11 - Reduced Staff Capacity and Support: 4%	01	0.00	(107,647)	0	0	(107,647)	0.00	(107,647)	0	0	(107,647)
ZD_12 - Reduced staff capacity & support: 2% (6% tot	02	0.00	(53,824)	0	0	(53,824)	0.00	0	0	0	0
ZD_13 - Reduced staff capacity & support: 2% (8% tot	03	0.00	(53,824)	0	0	(53,824)	0.00	(53,824)	0	0	(53,824)
<i>Total Reductions</i>		<i>0.00</i>	<i>(215,295)</i>	<i>0</i>	<i>0</i>	<i>(215,295)</i>	<i>0.00</i>	<i>(161,471)</i>	<i>0</i>	<i>0</i>	<i>(161,471)</i>
<i>Unfunded Ongoing</i>											
ZD_01 - Cluster Development and Business Recruitme	01	0.00	0	567,000	0	567,000	0.00	0	500,000	0	500,000
ZD_02 - Main Street	02	0.00	0	500,000	0	500,000	0.00	0	332,000	0	332,000
ZD_08 - International Business Development	03	0.00	0	205,000	0	205,000	0.00	0	205,000	0	205,000
ZD_06 - Economic Prosperity Initiative	04	0.00	0	242,065	0	242,065	0.00	0	242,065	0	242,065
ZD_03 - Seed Fund	05	0.00	0	500,000	0	500,000	0.00	0	200,000	0	200,000
ZD_07 - Small Business Technical Assistance	06	0.00	0	600,000	0	600,000	0.00	0	300,000	0	300,000
ZD_05 - Small Business Working Capital	07	0.00	0	200,000	0	200,000	0.00	0	0	0	0
ZD_09 - Entrepreneurial Development	08	0.00	0	150,000	0	150,000	0.00	0	0	0	0
ZD_04 - Business Services Website	09	0.00	0	65,000	0	65,000	0.00	0	0	0	0
ZD_15 - Economic Opportunities Initiative	10	0.00	0	158,000	0	158,000	0.00	0	0	0	0
<i>Total Unfunded Ongoing</i>		<i>0.00</i>	<i>0</i>	<i>3,187,065</i>	<i>0</i>	<i>3,187,065</i>	<i>0.00</i>	<i>0</i>	<i>1,779,065</i>	<i>0</i>	<i>1,779,065</i>
<b>Total Portland Development Commission</b>		<b>0.00</b>	<b>(215,295)</b>	<b>3,187,065</b>	<b>0</b>	<b>2,971,770</b>	<b>0.00</b>	<b>(161,471)</b>	<b>1,779,065</b>	<b>0</b>	<b>1,617,594</b>
<b>Summary by Decision Package Type</b>											
<i>Total Reductions</i>		<i>0.00</i>	<i>(215,295)</i>	<i>0</i>	<i>0</i>	<i>(215,295)</i>	<i>0.00</i>	<i>(161,471)</i>	<i>0</i>	<i>0</i>	<i>(161,471)</i>
<i>Total Unfunded Ongoing</i>		<i>0.00</i>	<i>0</i>	<i>3,187,065</i>	<i>0</i>	<i>3,187,065</i>	<i>0.00</i>	<i>0</i>	<i>1,779,065</i>	<i>0</i>	<i>1,779,065</i>
<i>Total Bureau Adds</i>		<i>0.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<i>Total Realignments</i>		<i>0.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Grand Total</b>		<b>0.00</b>	<b>(215,295)</b>	<b>3,187,065</b>	<b>0</b>	<b>2,971,770</b>	<b>0.00</b>	<b>(161,471)</b>	<b>1,779,065</b>	<b>0</b>	<b>1,617,594</b>

### III. Decision Package Analysis & Recommendations

#### Reduction Packages

##### ***Reduced Staff Capacity and Support: 4%/ZD\_11, \$107,648, Bureau Priority #1***

This package meets Council's request for ongoing General Fund reduction packages of 4%. The impact would be spread across three programs:

- Cluster Development, Business Recruitment and Catalytic Initiatives: (\$37,922) Eliminates support for roughly 0.3 FTE. Total ongoing budget is \$958,060.
- Venture Portland: (\$11,111) \$2,000 reduction in administration; \$9,111 reduction in grant and program offerings to business districts. Total ongoing budget is \$277,783.
- Economic Opportunities Initiative: (\$58,614): Decreases capacity to enroll new participants. Total ongoing budget is \$1,465,349.

FPD recommends this reduction package given the reduction in ongoing funds available Citywide.

*FPD Recommendation: (\$107,648)*

##### ***Reduced Staff Capacity and Support: 2% (6% cumulative)/ZD\_12, \$53,824, Bureau Priority #2***

Together with ZD\_11, this package meets Council's request for ongoing General Fund reduction packages of 6%. Impact would be spread across three programs:

- Cluster Development, Business Recruitment and Catalytic Initiatives: (\$18,961); total with ZD\_11 is (\$56,884). Cumulative impact of roughly 0.5 FTE.
- Venture Portland: (\$5,556); total with ZD\_11 is (\$16,667). Cumulative \$2,000 reduction in administration; \$14,667 reduction in grant and program offerings to business districts.
- Economic Opportunities Initiative: (\$29,307); total with ZD\_11 is (\$87,921). Decreases capacity to enroll new participants.

FPD recommends this reduction package given the reduction in ongoing funds available Citywide.

*FPD Recommendation: (\$53,824)*

##### ***Reduced Staff Capacity and Support: 2% (8% cumulative)/ZD\_12, \$53,824, Bureau Priority #2***

Together with ZD\_11 and ZD\_12, this package meets Council's request for ongoing General Fund reduction packages of 8%. Impact would be spread across three programs:

- Cluster Development, Business Recruitment and Catalytic Initiatives: (\$18,961); total with ZD\_11 is (\$75,864). Cumulative impact of roughly 0.7 FTE.
- Venture Portland: (\$5,556); total with ZD\_11 is (\$22,223). Cumulative \$2,000 reduction in administration; \$20,223 reduction in grant and program offerings to business districts.
- Economic Opportunities Initiative: (\$29,307); total with ZD\_11 is (\$117,228). Decreases capacity to enroll new participants.

*FPD recommendation: \$0*

## Ongoing Unfunded Packages

### *Cluster Industry Research, Development, and Initiatives/ZD\_01, \$567,000, Bureau Priority #1*

In the current fiscal year PDC received \$567,000 in one-time General Fund dollars allocated \$902,634 in ongoing General Fund, for total General Fund support of just under \$1.5 Million. These initiatives support four industry clusters established in the City's 2010 Economic Development Strategy, each guided by Industry Advisory Committees. Cluster work is staff intensive; 40% of program dollars are spent on personnel. The following program budget includes \$164,442 in program carryover.

<u>Budget Component</u>	<u>Amount</u>	<u>Share</u>
Materials & Services	\$785,847	48%
Financial Assistance	\$50,000	3%
Personal Services	\$659,973	40%
Indirect	\$138,236	8%
Total	\$1,634,056	100%
Rough FTE equivalents	5.74	

Current fiscal year accomplishments include:

- **Grants awarded**
  - Three companies received total of \$18,000 in lean manufacturing matching grants
  - Five athletic and outdoor industries received roughly \$25,000 in matching grants to increase their involvement with the Eco-index, a national measure of sustainability maintained by the Outdoor Industry Association (OIA).
- **Industry event hosting**
  - Sponsored OIA Rendezvous (annual conference of 450 attendees)
  - Co-sponsored the Manufacturing Career Summit (26 companies, 500 job seekers)
  - Supported POSI's annual EcoDistrict Summit
- **Trade show attendance and delegation support**
  - American Wind Energy conference (partnered with Business Oregon, Greater Portland Inc).
  - CanWea trade show (patterned with US Department of Commerce)
- **Marketing material development**
  - Co-sponsored *Inspired by Portland* film to market the Athletic and Outdoor cluster
  - Contracted for documentation of Oregon's standing in the U.S. clean-energy economy (second place) due to its workforce, policy support and low-cost energy
  - Co-sponsored *We Build Green Cities* campaign film and website featuring local architects, engineers and other Clean Tech: Green Development industries
- **Industry Collaboration**
  - Partnered with Software Association of Oregon to develop an in-progress website with mentoring resources, industry connections, and marketing information.
  - Supported events within the software community such as "hack-athons" and "code sprints."
  - Progressed Design Forum/PDX, an initiative to sponsor a design research library within the Athletic and Outdoor cluster.
  - Continued to work with public and private sector partners to advance the Oregon Sustainability Center (OSC).

This program's goals for FY 2012-13 include:

- Overall: 250 business retention/expansion visits; 12 firm recruitments; 1,000 jobs retained/created; 3 meetings per advisory committee
- Advanced Manufacturing: Establishment of NW Collaboratory to meet industry R&D needs and increase cooperation between firms and educational institutions; 2-3 workforce development events
- Athletic & Outdoor: Opening of Design Forum/PDX; locating OSU's apparel research center in Portland; launching a digital athletic and outdoor hub
- Clean Tech: OSC and Green Innovation Park break ground; two firms identifying new product lines through PDC supply chain work; establishing eco-districts in Lloyd and South Waterfront
- Software: Minimum two fly outs to California for firms and capital; website completed

This program forms the backbone of the City's business development and recruitment efforts, activities that are not TIF eligible. As such – and due to the cluster work focus on bringing new dollars into the region – FPD recommends the City continue to provide General Fund support. A 12% reduction in one-time funds is recommended in recognition of reduced General Fund availability.

*FPD Recommendation: \$500,000, 0 FTE*

***Portland Main Street Program/ZD\_02, \$500,000, Bureau Priority #2***

The package requests a fourth year of equivalent funding and would bring total funding to date to \$2 million. Three main streets were selected in June 2010; the second year of program operations will be complete at the end of this fiscal year. The program is now ending its intensive 'technical assistance phase.' PDC envisions supporting these Main Streets at least through FY 2013-14; the national Main Street model is based upon three years of support to develop self sustaining districts. However, the agency reports that continued municipal support is often needed for continued success. In FY 2012-13 staff will work with the Main Streets to develop alternative funding mechanisms such as business improvement districts and corporate sponsorship.

Each district – Alberta, Hillsdale and St Johns – is incorporated as a non-profit and supported by one paid executive director. PDC provides \$30,000 in support of each that the districts must match. Districts must also raise \$20,000 towards program operations. Roughly half of the total program budget goes to district staff salaries and training, and to grants. Additional program expenses are outlined below.

<b>Budget Component</b>	<b>Amount</b>	<b>Percent</b>
Materials & Services	7,500	2%
Personal Services (PDC)	189,018	38%
PDC travel & training	9,150	2%
Indirect (PDC overhead)	60,000	12%
District staffing	90,000	18%
District grants	84,000	17%
District tech asst. & training	60,332	12%
	<b>500,000</b>	<b>100%</b>
Rough FTE equivalents	1.64	

Metrics are available for FY 2010-11 only, the first year of the program's operation. Success is measured via volunteer hours, commercial space vacancy, and employment growth, against baseline district conditions. During the first year of operations the Main Streets in total netted 13 businesses, 8 full-time and 4 part-time employees.

The program's goals for FY 2012-13 include:

- Leverage of PDC investment via matching Main Street support for staff (\$30,000) and operations (\$20,000)
- Implementation of locally identified and implemented district improvement projects
- Increase in district employment by 5 FTE each or a total of 15 FTE

Due to its July 2011 expansion, Interstate URA now encompasses two of these districts (Alberta and St Johns). There is significant overlap in the activities and investments of Main Streets and the activities and investments of URAs. The incorporation of these Main Streets into URAs diversifies the funding that can support these programs.

The Main Street budget includes dollars for property improvement and pre-development grants, technical support, and architectural consulting totaling \$100,000 for the Alberta and St Johns Main Streets. This share of the program's budget – at minimum – should be eligible for TIF support. Budget for one-quarter of PDC Main Street staff time equates to roughly \$50,000. Decreasing General Fund support for this program should reduce Indirect charges by \$18,000. FPD recommends accordingly reduced General Fund support in order to preserve General Fund dollars for programs for which alternative funding sources are not available.

*FPD Recommendation: \$332,000*

***International Business Development/ZD\_08, \$205,000, Bureau Priority #3***

This program supports cluster industries by helping companies increase their sale of products and services abroad, either directly or by supplying to companies with international products. The Weiden and Kennedy produced film *We Build Green Cities*, for example, markets the region's Clean Tech: Green Development cluster but was supported by funds from this program. This program was initiated and newly funded in the current fiscal year.

In the current fiscal year Portland was selected by the Brookings Institution as one of three cities to mentor in developing an export strategy, which will be unveiled this spring. Brookings provided mentorship and data, and facilitated the sharing of best practices among the four peer cities and connections between the cities and federal agencies such as the Department of Commerce.

Ongoing International Business Development program activities include the annual International Awards Dinner and Road Show, which helps businesses throughout the state understand how to promote their products and services outside of the region.

The program's budget envisioned the bulk of expenditures in EM&S; however, the program has resulted in greater staff time than anticipated and now supports roughly 2.00 FTE, including one manager who will coordinate PDC's role in export strategy implementation.

The program's goals for FY 2012-13 center on export strategy implementation, in collaboration with Greater Portland Inc., a privately-led regional economic development organization.

FPD supports this request in order to maximize the resources that the Brookings Metro Export Initiative brought to the region through its work with PDC, and because of the program’s focus on bringing new dollars to the region.

*FPD Recommendation: \$205,000*

***Neighborhood Prosperity Initiative/ZD\_06, \$242,065, Bureau Priority #4***

This package requests a second year of funding for NPI, essentially micro district URAs, described in the ‘New URAs in FY 2012-13’ significant issues section above. Six areas have been selected for nine years of TIF funding totaling \$1.25 million per district. These districts will more closely resemble the Main Street model than URAs in that district management will be handled via six to-be-formed non-profit corporations. The districts are not considered appropriate for the Main Street model due to lower community capacity, greater economic challenges, and the larger size of the districts.

Council directives constrained PDC’s Requested Budget to current year appropriations; however, the agency predicts that this program will require roughly 2.5 times the requested amount in order to establish the required organizational infrastructure. Required General Fund subsidy would diminish but average above \$400,000 for the ten-year project budget.

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>
<b>Revenue</b>										
General Fund	629,658	547,873	398,608	443,273	429,051	356,098	310,020	262,595	216,276	517,042
E zone	150,000	150,000	150,000	-	-	-	-	-	-	-
TIF	-	398,743	505,301	662,692	791,397	669,038	669,038	669,038	669,038	421,353
Rev. Sharing	-	-	49,433	75,226	116,092	283,345	393,555	507,200	619,515	-
	<u>779,658</u>	<u>1,096,616</u>	<u>1,103,341</u>	<u>1,181,191</u>	<u>1,336,540</u>	<u>1,308,480</u>	<u>1,372,612</u>	<u>1,438,832</u>	<u>1,504,828</u>	<u>938,395</u>
<b>Expenses</b>										
PDC	255,658	116,939	118,646	126,089	139,781	138,850	145,348	152,067	158,825	115,046
Program	524,000	979,677	984,696	1,055,102	1,196,759	1,169,630	1,227,264	1,286,766	1,346,003	823,349
NP staff	191,000	191,000	191,000	191,000	191,000	191,000	191,000	191,000	191,000	191,000
Available for investments	333,000	788,677	793,696	864,102	1,005,759	978,630	1,036,264	1,095,766	1,155,003	632,349
<i>Per District</i>	<i>111,000</i>	<i>262,892</i>	<i>264,565</i>	<i>288,034</i>	<i>335,253</i>	<i>326,210</i>	<i>345,421</i>	<i>365,255</i>	<i>385,001</i>	<i>210,783</i>

*\*The City and County have agreed to return shared revenues to the district in the form of grants*

*\*\*Includes staffing and indirect allocation*

PDC’s experience with the Main Street program underscores the significant investment in capacity-building that this model requires. After staffing and overhead for both PDC and the district non-profits is deducted, as well as consulting funds for organizational capacity development, economic development, and district revitalization, each district would net an average of \$290,000 annually for district improvements, or 24% of the program’s total resources. The Main Street model removes PDC from its middle-man position between the dollars and a community’s objectives and rests the burden of results more squarely on the business community. The model also provides a funding mechanism via support from local businesses. The NPI initiative has a funding component in TIF, however, which makes the case for the resource-intensive development of separate district non-profits less compelling.

In addition to the program’s efficiency, a second concern is that each managing non-profit will be responsible for expending TIF and, by extension, ensuring that spending is TIF eligible. PDC plans to train non-profits on the use of funds and to distribute funding after sufficient project due diligence has been demonstrated, as well as set aside a non-TIF reserve to cover any potential inappropriate expenditures. The draft PDC/City IGA is structured so that the General Fund is not at risk if inappropriate expenditures occur. The risk may instead be public perception and increased cost of future borrowing should ineligible expenditures occur.

PDC is well down the road of district adoption and has garnered the support of the communities and of Multnomah County. The districts meet equity objectives, bringing resources to areas that have not previously experienced the benefits of TIF investment. These equity investments can however be achieved without the Main Street model, which creates extensive organizational infrastructure that in part duplicates the role of PDC staff in the traditional URA model. FPD recommends this request given the significant community buy-in the proposal has received, but strongly recommends the program be reassessed to reduce its reliance on multi-year General Fund support.

*FPD Recommendation: \$242,065*

***Portland Seed Fund Initiative/ZD\_03, \$500,000, Bureau Priority #5***

The Portland Seed Fund targets high-risk venture enterprises with strong growth potential. It targets start-ups with high growth potential, but below what is typically attractive to venture capital (e.g. an exit strategy of less than \$100 million). The fund is privately managed by Bridge City Management, which establishes investment criteria and selects recipients. Six-eight companies are selected as a class and receive three months of coaching, networking and funder connections. Most are granted \$25,000; a select number receive \$50,000. PSF will entertain follow-on investments for the most promising of the startups and is available to provide ongoing coaching/mentoring to PSF graduates. Portland Seed Fund 1.0 will sponsor four investment classes over a two-year period, with 6-8 entrepreneurs per class. The fund budgets for two years of active investment and a total of seven years of management (management constitutes 25% of the budget). It measures success via additional funds raised, jobs created and the firm’s eventual liquidity event.

The City (via several years of one-time General Fund) has pledged \$700,000 in seed funds and \$40,000 in operating support to date. Investment entities are detailed below:

<b>Entity</b>	<b>Contribution</b>
City of Portland	\$700,000
Oregon Growth Account	\$750,000
City of Hillsboro	\$250,000
Private Angel Investors	\$1,302,000
Total to date	\$3,002,000

If the companies are successful, the fund managers and limited partner investors realize a return on their investment. Portland and other municipalities are prohibited from issuing stock as equity investors; the cities’ investment is funneled through Oregon Entrepreneurs Network with the stipulations that returns on their contributions be reinvested in PSD.

The first investment class was selected in June 2011. Two companies have since raised an additional roughly \$1.5 million each. Within six months, the eight companies had hired an additional 30 people (although it is likely that not all jobs will persist). Based on its six-month investment

schedule, PSF 1.0 will actively invest through February 2013. This summer, Bridge City Management will begin raising a target of \$5 million for PSF 2.0.

The City’s support for PSF is both a scalable and deferrable investment. Despite reduced resources, FPD recommends continued contribution due to the improved overhead rates and quality of management the fund is able to achieve. Pooling regional funds is an effective approach to both generating and allocating these dollars. The City’s early support for PSF 1.0 helped to leverage the remaining \$2.3 million. Given the reduced availability of General Fund, FPD recommends reduced but continued funding to support the fund’s fundraising efforts with existing and new partner entities.

*FPD Recommendation: \$200,000*

***Small Business Technical Assistance/ZD\_07, \$600,000, Bureau Priority #6***

This program is new to the current fiscal year, although in FY 2009-10 funds were directed to the Hispanic and African American Chambers of Commerce to provide similar services. In 2011-12 a competitive RFP was issued for non-profits to deliver technical assistance to businesses that meet one of the following criteria:

- Located in a ‘priority area’ commercial corridor (i.e. within or adjacent to a neighborhood with higher than average poverty rate or lower than average Median Family Income)
- Owned by a household that earns less than 120% of MFI
- Owned by a minority
- Owned by a person with limited English proficiency

Five non-profits were selected to administer culturally competent technical assistance, supported by contracts ranging from \$60,000 to \$120,000. In total, providers will target 155 businesses for technical assistance and training and 80 businesses for legal assistance. The program budget is detailed below.

<b>Budget Component</b>	<b>Contract</b>
Non Profit Providers	
Hispanic Metropolitan Chamber	\$95,000
Immigrant and Refuge Community Organization	\$60,000
Native American Youth Family Center	\$95,000
Portland Community College	\$120,000
Small Business Law Clinic	\$80,000
	<hr/>
	\$450,000
PDC	
Staff	\$93,563
Indirect Allocation	\$56,437
	<hr/>
	\$600,000

The program is in part testing approaches to providing technical assistance, as each provider offers a different mix of classes vs. one-on-one assistance. First quarter results are anticipated in June 2012. Its goals are to serve under-represented businesses and that 70% of the businesses served are still in business three years after receiving assistance.

This program meets equity objectives, targeting low-income businesses and meeting Neighborhood Economic Development objectives. FPD projects that the program will carryover roughly \$210,000 from its current year allocation into FY 2012-13; \$390,000 would be required to support one full year of program delivery (bringing the program in line with the fiscal year). In light of decreased General Fund availability, FPD recommends that program support be reduced by 17% (roughly equivalent to 26 fewer businesses receiving technical assistance and 13 fewer businesses receiving legal advice). Ideally, program reporting will guide in more targeted allocation of year two funding across the non-profit providers. FPD's intent is to include program carry-over dollars in the Adopted Budget, bringing the program's total FY 2012-13 budget to \$510,000.

*FPD Recommendation: \$300,000*

***Small Business Working Capital/ZD\_05, \$200,000, Bureau Priority #7***

This Small Business Revolving Loan Program received its third year of General Fund support in FY 2011-12, for a three year total of \$700,000. Loans have yet to be allocated in the current fiscal year. The program was previously known as the Hatfield Loan Program, and in the past has been supported by the Economic Development Administration and an Urban Development Action Grant. Target loan distribution is:

- 25%: cluster industries
- 25%: high growth businesses
- 50%: neighborhood economic development

The program offers loans at more liberal terms than the market provides for working capital and equipment: an interest rate at prime, 10 year amortization, and one year of interest only payments. Recipients are referred via involvement in other PDC programs (e.g. storefront) as well as referrals from bankers, community partners, Business Oregon, and technical assistance providers. PDC's Financial investment Committee (agency leadership) reviews and approves loan recipients.

In the previous fiscal year (2010-11) two loans were granted:

- \$100,000 for a software firm (traded sector)
- \$50,000 for a recycling firm (neighborhood economic development)

With \$179,000 carryover from FY 2010-11, the program balance is now \$379,000 in available loan dollars. Investments in this program are both scalable and deferrable. Given the significantly reduced one-time General Fund available, FPD recommends against additional program support in FY 2012-13.

*FPD Recommendation: \$0*

***Entrepreneurial Development/ZD\_09, \$150,000, 0 FTE, Bureau Priority #8***

This request supports the Entrepreneurship and Innovation Strategy, launched in October 2011. The program received its second year of General Fund support in the current fiscal year. The program works to create an 'ecosystem' to support entrepreneurs, and as such partners with other PDC programs such as the Portland Seed Fund and intersects significantly with cluster support. Another important component is collaboration with higher education regarding innovation, research and development, product development and technology transfer.

The Entrepreneurship and Innovation Strategy has four objectives:

1. Work to create a cohesive, concentrated system to support scalable startup business in Portland

2. Attract outside investment, increase local access to capital and retain businesses in Portland by creating a more favorable investment environment
3. Create a culture of entrepreneurship and collaboration around research and commercialization in the Portland region by partnering with Oregon universities
4. Gauge and report on indicators to demonstrate Portland's progress in supporting and nurturing entrepreneurs

Current fiscal year activities have included launching the strategy and sponsoring a statewide roundtable to understand opportunities and challenges within Portland's entrepreneurial ecosystem. Objectives for FY 2012-13 include:

- Finalize research and commercialization strategy, focused on leveraging university assets
- Design grant program to support technology transfer and help businesses grow around new technology
- Facilitate additional peer2peer roundtables
- Launch mentorship program currently in refinement

FPD recommends against this package in light of support recommended for cluster initiatives via other requests (Cluster Industry Research, Development and Initiatives and International Business Development). However, PDC is encouraged to prioritize this cluster within its overall budget for business development and recruitment, given its planned adoption of an Education URA, and to identify eligible TIF expenses within this initiative when possible.

*FPD Recommendation: \$0*

***Business Services Website/ZD\_04, \$65,000, Bureau Priority #9***

This package supports contract staff dollars to maintain the [www.portland4biz.com](http://www.portland4biz.com) website. The site includes a business calendar, blog, articles, and reports regarding Portland region economy and industries. During the last half of July the website had over 15,000 visits by close to 13,000 unique visitors and 874 Twitter followers. In FY 2012-13 PDC will target 32,000 unique visitors to the site (a 23% increase).

FPD does not recommend this package for FY 2012-13 due to the decreased availability of General Fund dollars, and encourages PDC to seek alternative resources to continue this service, potentially in conjunction with private industry partners such as Greater Portland Inc.

*FPD Recommendation: \$0*

***Economic Opportunity Initiative/ZD\_15, \$158,000, Bureau Priority #10***

This program was established by the Bureau of Housing in 2003 and transferred to PDC in 2009. In the current fiscal year, PDC's total EOI budget is over \$3.7 million, including \$1,416,382 in ongoing General Fund dollars. Community Development Block Grant dollars provide an additional \$2,138,667. PDC expects a 14% drop in CDBG funding in the coming fiscal year, reducing the number of people the program can serve.

EOI is a workforce readiness program that provides participants with three years of life and job skills development. Funds are directed to 29 non-profits that provide skills development and offer linkages to specific industries such as health care, metals or construction. Two PDC staff administer the program. There are three separate components:

- Adult Workforce Projects (11 providers)
- Youth Workforce Projects (10 providers)

- Micro-enterprise Projects (7 providers)

Individuals must earn less than 50% MFI to qualify for workforce enrollment; half of microenterprise enrollees are at this income level and the remainder earn less than 80% MFI. The program's overarching goal is for participants to realize a 25% increase in income at the end of year three. In the current fiscal year a total of 1,690 people were enrolled in the program (across three cohorts). Next year 480 enrollees are anticipated, smaller due to the expected 14% decline of federal CBDG funds. Program results are summarized below.

- Over four cohorts, participants on average have increased their income by close to 22%.
- Fifty-eight percent of participants achieved full goal of 25% income increase.

In the coming fiscal year, PDC staff will implement annual progress reports (vs. issuing metrics upon completion of the three-year program).

In FY 2010-11 PDC staff worked to align the program's objectives with Worksystems Inc, issuing a joint RFP to select new non-profit providers. The program will undertake a similar exercise for youth workforce providers in the current fiscal year, and for adult workforce providers in FY 2012-13.

FPD does not recommend this package, despite performance metrics that indicate its effectiveness in improving workforce readiness among the city's low-income residents, due to reduced General Fund availability and the program's low ranking within PDC's priorities. With decreased General Fund support (total reduction of \$158,000 in one-time dollars and \$87,921 in on-going dollars) and approximately \$300,000 fewer CBDG dollars, the program will experience a total resource reduction of 15%. The General Fund cannot sustain backfill for the program's continued decline in federal support.

*FPD Recommendation: \$0*

## **V. Performance and Accountability**

PDC's baseline template describes the agency's ongoing implementation efforts towards direct cost accounting to better track program delivery costs. This is a very important step that will help gauge program effectiveness, increasingly important as resources decline. This information should be used in FY 2012-13 to assess resource allocation and program initiatives.

The program summary template identifies administration as the largest program within the bureau, with 75.80 of the bureau's 134.40 FTE. This includes administrative positions from across PDC's departments. The bulk of these positions reside in the Finance and Business Operations division (65.00 FTE). Relative to City bureaus, the agency is heavily staffed with IT (7 employees per IT staff, vs. 24 for the City) and HR (27 employees per HR staff, versus 82 for the City) support. The bureau will need to balance support functions with program delivery as it reduces staffing over the next five years.