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PORTLAND DEVELOPMENT COMMISSION

Budget Summary	Adopted FY 2012-13	Request Base FY 2013-14	Decision Pkgs FY 2013-14	Request Total FY 2013-14	Percent Change
Resources					
Intergovernmental Revenues	$500,000	$0	$0	$0	-100.0%
General Fund Discretionary	5,844,591	5,344,437	593,826	5,938,263	1.6%
Total Resources	**6,344,591**	**5,344,437**	**593,826**	**5,938,263**	**-6.4%**
Expenditures					
External Materials and Services	6,344,591	5,344,437	593,826	5,938,263	-6.4%
Total Requirements	**6,344,591**	**5,344,437**	**593,826**	**5,938,263**	**-6.4%**
Total Bureau FTE	**135.30**	**135.30**	**0.00**	**135.30**	**0.0%**

Percent Change is the change from FY 2012-13 Adopted Budget to FY 2013-14 Total Requested Budget.

Key Issues

Resource Diversification

The largest issue impacting this agency has been and continues to be the forecasted rapid decline in available TIF revenue. Over the next decade all but one district will reach its last date to issue debt, and debt for past projects will consume an increasing share of URA resources over this trajectory. In FY 2013-14 there is $87 million available in net URA resources after debt service is paid and the Portland Housing Bureau receives its allocation. That net resources remain so large is due to $66 million in beginning fund balance, programmed to be gradually spent down over the next several years. Net URA resources available are projected to hover around $60 million for the following five years, and then drop to $5 million annually by FY 2021-22. Although all districts but the Education URA will have reached their last date to issue debt within ten years, the full repayment of debt issued extends another 20 years, constraining the creation of new URAs. Even if debt is repaid more rapidly – which is typically the case – the agency plans to shift to a new business model providing sustainable funding to support a consistent agency size.

Beyond the five year forecast, PDC has developed a long-term internal planning model with a target operating budget of roughly $26 million, a 24% decrease from current operations (all expenses other than capital investments). The model relies upon increasing fee revenue. Draft revenue components are listed below.

- **TIF**: decreasing from 65% to 14% ($22.4 to $3.7 million).

- **Loan net interest**: increasing from 7% to 18% (2.4 to 4.7 million). This requires underwriting a larger share of lower risk market rate loans, to decrease the agency's loan losses to 10%. PDC reports that it expects to collect 50% of its currently outstanding loans.
- **Real estate operations**: increasing from 2% to 7% ($0.7 to $1.8 million). This movement would require disposing of current property holdings that lose money and looking for opportunities to acquire fee-generating real estate. Most agencies PDC looked to as examples of self-sustaining operations held real estate, for instance in the form of parking garages and land leases. PDC could also contract out its real estate expertise to other agencies: the City, for instance, has not inventoried its properties from an economic development perspective, to assess what should be developed, held, or disposed.
- **Public funding**: increasing from 24% to 32% (but dollars held constant at $8.3 million). This assumes funding sources hold steady: City General Fund, $5.8 million; CDBG, $2.1 million; federal grants, $0.4 million.
- **New business lines**: increasing from 1% to 28% ($0.3 to $7.3 million). The agency describes the components of this revenue category as most in flux. It includes ideas such as loan servicing and property management fees, EB-5 fees (visas for immigrant investors), and return on investments in infrastructure, real estate and business equity.

The planned emphasis on fee revenue means that the agency's activities and investments will be determined by their ability to contribute to the agency's continued operations. This is a significant departure from the previous lenses through which activities and investments have been evaluated.

It is worth noting that the agency's desired shift towards income generation moves it away from a City bureau model of service delivery. Staff reports that the agencies researched with the most promising models for revenue generation were non-profit entities or public authorities, overseeing multiple nonprofits as well as public entities.

Right Sizing the Agency

PDC's target operating budget of $26 million requires continued reductions in personnel and materials and services. The Requested Budget reports 135.3 FTE, however, PDC plans to revise this number for the Adopted Budget to eliminate roughly nine current vacancies and additional vacancies generated through its current retirement incentive initiative, through which an estimated six vacancies may be generated. These adjustments would result in roughly 120.3 authorized FTE in FY 2013-14, compared to a target FTE of just over 100 by FY 2014-15.

General Fund Support for Economic Development

In FY 2012-13, the agency received $2.6 million in ongoing General Fund and $3.2 million in one-time General Fund (prior to one-time reduction Council requested in the Fall BMP). This is the second year the agency has been funded at this level, and reflects a 67% increase over FY 2010-11 funding.

The FY 2012-13 Adopted Budget includes a Budget Note on Economic Development Sustainable Funding:

> Council directs the Officer of Management and Finance to add sustainable funding for the Portland Development Commission's Economic Development program to the FY 2013-14 5-year forecast. The Office of Management and Finance should increase the Portland Development Commission's FY 2013-14 current appropriation level target by $3,187,065.

CBO adjusted the forecast accordingly; PDC's 90% base budget for FY 2013-14 is $2.87 million higher than it would have been absent this budget note.

The City's General Fund support of PDC's economic development initiative is categorized into two primary components of Traded Sector Economic Development and Neighborhood Economic Development. Its 12 individual initiatives fall within these two categories, and while funds are allocated per initiative, the IGA has historically allowed funds to move between initiatives as long as each budget category is not exceeded.

The Economic Opportunities Initiative (EOI) – a program and associated $1.6 million General Fund funding stream that PDC inherited from the Portland Housing Bureau in FY 2009-10 – has this year been incorporated into the umbrella of Neighborhood Economic Development, bringing the balance between the two programs to 60% Neighborhood, 40% Traded Sector.

In its 90% base budget development, PDC shifts its allocation of resources in the following ways:

- Elimination of Portland4Biz website ($55,000 support in the FY 2012-13 Adopted Budget). PDC reports that the site was not generating sufficient traffic to warrant the investment; it plans to roll some of the site's content into pdc.us.
- Cluster industry work: 25% reduction (from $1.49 to $1.12 million), with an additional $168,462 requested as the fourth priority add package (out of five). This reduction is in part enabled by the agency's greater use of TIF to support recruitment dollars when it is likely that the business will locate within a URA.
- EOI: 13% reduction (from $1.6 to $1.4 million), with an additional $300,000 requested as the first priority add package.
- Portland Seed Fund/Start Up Funding and Investment: 50% increase (from $300,000 to $450,000), with $50,000 additional requested as the third priority add package. In FY 2011-13 PDC redirected $300,000 of its $500,000 Seed Fund allocation to PSU and OSHU for use in commercialization grants for promising start ups. This budget line item reflects PDC's continued interest in partnering with PSU/OHSU business generation efforts and the agency's assessment of start up investment as an effective use of public funds.
- $20,000 - $50,000 reductions in Small Business Technical Assistance, Main Street, International Development and the Small Business Working Capital loan fund.

CBO supports the realignment of PDC's base budget.

Economic Development Performance Metrics

PDC reports on agency-wide outcomes via its Economic Development Strategy status reports. Its primary metrics are jobs retained and added, businesses assisted, and investment leveraged. Its July 2012 Three Year Status Report cites the latest number available, three-year financial assistance and recruitment outcomes of:

- Jobs created: 1,878 (avg. 490 per year)
- Jobs retained: 1,471 (avg. 626 per year)
- Jobs recruited: 898 (avg. 299 per year)
- Total jobs: 4,247 (avg. 1,416 per year)

Job impacts are estimated by the company at the time that financial assistance is provided; jobs realized are verified at two and five year intervals when Oregon Employment Department reporting is available.

Metrics at the Traded Sector program level are less consistently reported. Portland Seed Fund regularly reports outcome measures; PDC estimates and verifies job growth for firms that receive Small Business Working Capital loans. PDC does not isolate outcome metrics for its cluster industry General Fund dollars. Its tracking emphasizes output: number of business visits and number of businesses connected with various forms of assistance. A new tracking system (Portfol Customer Relations Management) was implemented in 2012. The following table reports business contacts by Traded Sector staff over six months (July – December 2012):

Assistance Type	Examples	Assists
Analysis/Research	Provide research and referrals to resources	12
Site Development	Assist in identifying sites; connect to brokers; coordinate/host site tours	27
Supply Chain	Facilitate connections within and across industries. Trade show participation; facilitation of buyer-supplier workshops	6
Partnership Development	Meeting with other technical, financial, education providers; event collaboration & coordination; marketing PDC's work	89
Exports/International	Develop cluster specific export strategies; develop partnerships to assist Portland firms enter new markets	22
Cluster Development	Coordinate and participate in networking events, trade shows, advisory boards, industry panels	49
Product Deployment	Demonstration projects, networking firms to partnership opportunities	9
Other		6
		220

Cluster industry output also tends to be more project-specific, in alignment with industry council work plans. Projects generally facilitate industry networking and collaboration. Highlights of these efforts are included in PDC's Requested Budget. These multi-year efforts are gauged via industry response, rather than a uniform measurement such as jobs created. Private sector willingness to pay is a good measure of value added; meeting this threshold appears to be the default gauge of an effort worth continuing. Businesses are now paying to attend a semi-monthly guest speaker networking event dubbed Peer2Peer that PDC coordinates within the Athletic and Outdoor industry cluster. Other efforts are waiting for the private sector to demonstrate similar interest and commitment: continued investment in Design Forum PDX, a PDC-sponsored materials design library that intersects with Athletic and Outdoor as Clean Tech clusters, is contingent upon the organization developing a long-term funding model.

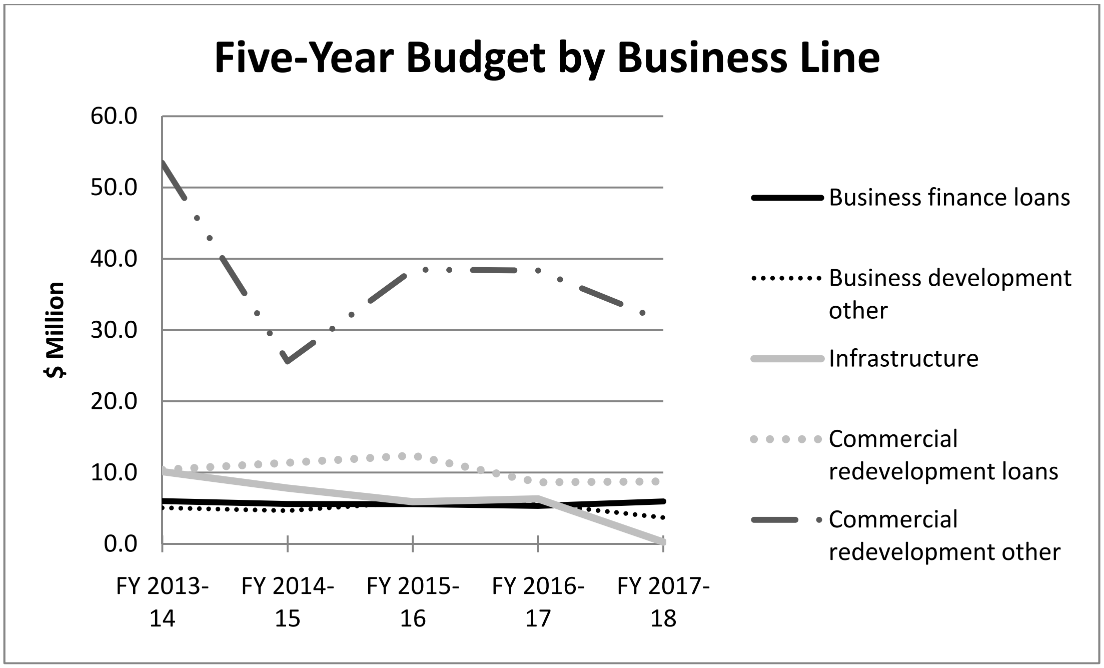
Neighborhood Economic Development programs – for the most part delivered by partner agencies – are more metric driven. In part this is due to programs that offer similar services to a new cohort of clients each year. For instance, EOI's target is that participants realize a 25% increase in income after three years participation. Main Street goals are three businesses, three fulltime jobs and 3,000 volunteer hours per district; Neighborhood Prosperity goals are similar but more moderate (two businesses, two jobs). The newly reorganized Small Business Development program tracks jobs, sales, owner income and business survival; staff are determining the most appropriate targets and reporting. Past accomplishments and FY 2013-14 targets were included in PDC's work session PowerPoint.

Annual program metric reporting is a crucial component in the allocation of public funds, enabling the City to assess the effectiveness of its investment. CBO encourages continued refinement of program metric selection and consistent reporting to City Council and the CBO in line with the City's budget timeline.

URA Budgets

PDC currently manages 12 traditional URAs, four of which have reached their last date to issue debt, and six micro URAs with a nine year horizon and no planned use of long-term debt. The five-year budgets for these URAs indicate the following trends:

- Relatively steady investment in business finance loans and other business development initiatives.
- Decreasing resources for commercial redevelopment (both direct investments and grants), although this spending category continues to comprise more than 60% of expenditures by FY 2017-18. In FY 2013-14, half of this line item ($26 million) is associated with the County's planned health center in the River District.
- Precipitous decline in infrastructure investment, in line with the agency's newly focused mission to invest in jobs, innovation and economic opportunity. Infrastructure dollars have in the past supported significant transit investments which do not reoccur within the five-year forecast period. This budget category also includes public facilities (Union Station, Life Science building parking).



Significant URA investments ($1.5 million +) planned over the five year forecast period across all business lines are listed below.

Airport Way (last date to issue debt reached)

- Business lending: $395,000 in FY 2013-14; $2.0 million over 5 years

Central Eastside (last date to issues debt: 2018)

- Business lending: $300,000 in FY 2013-14; $1.5 million over 5 years
- Commercial real estate lending: $600,000 in FY 2013-14; $3 million over 5 years

Convention Center (last date to issue debt reached)

- Business lending: $260,000 in FY 2013-14; $1.4 million over 5 years
- Rose Quarter energy improvements: $2.0 million in FY 2013-14
- Convention Center Headquarters Hotel: $4.0 million in FY 2013-14
- Inn at Convention Center: $823,000 in FY 2013-14; $2.5 million over 5 years (offset by operating income)

Downtown Waterfront (last date to issue debt reached)

- Business lending: $500,000 in FY 2013-14; $1.9 million over 5 years
- Commercial real estate lending: $4 million in FY 2013-14; $8.0 million over 5 years
- Storefront improvement grants: $200,000 in FY 2013-14; $1.0 million over 5 years
- 3rd & Oak parking garage: $2.8 million in FY 2013-14

Education District (last date to issue debt: 2041)

- Business lending: $100,000 in FY 2013-14; $3.1 million over 5 years

- Multnomah County placeholder: $400,000 in FY 2013-14; $3.1 million over 5 years

Gateway (last date to issue debt: 2022)

- Business lending: $400,000 in FY 2013-14; $1.8 million over 5 years
- Commercial real estate lending: $300,000 in FY 2013-14; $6.3 million over 5 years
- Commercial development placeholder: $2.2 million in FY 2013-14

Interstate (last date to issue debt: 2021)

- Business lending: $1.1 million in FY 2013-14; $5.61 million over 5 years
- Dawson Park improvements (infrastructure): $1.1 million in FY 2013-14; $2.1 million over 5 years
- Bridgeton Trail Connection (infrastructure): $1.5 million in FY 2013-14
- Killingsworth streetscape (infrastructure): $1.0 million in FY 2013-14; $2.9 million over 5 years
- Lombard streetscape (infrastructure): $70,000 in FY 2013-14; $3.0 over 5 years
- Storefront improvement grants: $790,000 in FY 2013-14; $4.0 million over 5 years
- Community livability grants (for non-profits): $300,000 in FY 2013-14; $1.5 million over 5 years

Lents (last date to issue debt: 2020)

- Business lending: $400,000 in FY 2013-14; $2.2 million over 5 years
- Foster Rd streetscape (infrastructure): $1.0 million in FY 2013-14; $1.7 million over 5 years
- Town Center redevelopment: $2.0 million in FY 2013-14; $4.7 million over 5 years

North Macadam (last date to issue debt: 2020)

- Business lending: $500,000 in FY 2013-14; $2.5 million over 5 years
- Life Sciences parking garage (infrastructure) : $1.7 million in FY 2013-14
- Commercial property project placeholder: $500,000 in FY 2013-14; $2.5 million over 5 years

River District (last date to issue debt: 2021)

- Business lending: $800,000 in FY 2013-14; $3.8 million over 5 years
- Commercial real estate lending: $3.0 million in FY 2013-14; $12.0 million over 5 years
- Community redevelopment storefront grants: $300,000 in FY 2013-14; $1.5 million over 5 years
- Multnomah County health services building: $26.9 million
- 10th & Yamhill Parking Garage: $0 in FY 2013-14, $17.5 million over five years
- Post Office redevelopment: $500,000 in FY 2013-14, $61.5 million over five years
- Union Station (infrastructure): $2.2 million in FY 2013-14, $8.4 million over five years
- Centennial Mills: $700,000 in FY 2013-14, $15.8 million over five years

South Park Blocks (last date to issue debt reached)

- Business lending: $200,000 in FY 2013-14; $1.0 million over 5 years

Willamette Industrial URA (last date to issue debt: 2024)

- Business lending: $500,000 in FY 2013-14; $2.5 million over 5 years

Veteran's Memorial Coliseum funding of $22 million (Oregon Convention Center) still appears in the FY 2012-13 budget; these funds will likely be carried over.

Seven Urban Renewal Advisory Committees (URACs) submitted letters to the PDC Commission on budget priorities. Several recommendations crossed URAs:

- Avoid gentrification
- Commit to long-term URAC priority projects such as the Washington High School site, Bridgeton Trail project, small parks projects, transportation connectivity, and Lents grocery store.
- Enable widespread use of Storefront and Development Opportunity Study dollars.
- Foster development at specific sites and corridors, and within specific real estate types.
- Do not focus on cluster industries to the exclusion of more immediate investment opportunities.
- Pool resources to deliver catalyst projects.

URAC letters indicate the inherent tension of community stakeholders with a variety of priorities beyond job creation. The URA budgets reflect longtime agency commitments, decreasing dollars for parks and transportation infrastructure, and $15 million + annually in loans with the potential to provide an ongoing source of economic development investment funds.

Newly Formed URAs

Seven URAs were incorporated in FY 2012-13.

- Education URA. As a newly formed URA, in FY 2013-14 this district anticipates $1.2 million in du jour revenue, increasing to $2.6 million by FY 2017-18. The bulk of its short-term expenditures are in commercial property redevelopment, and include investments in Neuberger Hall, PSU's School of Business, and one county building.

  This URA is a case study in how the urban renewal climate has shifted over the past decade: It will be subject to the state's 2009 revenue sharing provisions, which slow the district's revenue generation by sharing revenues with other taxing jurisdictions; it was developed in close partnership with the entities from which TIF diverts revenue (the County and schools); its project list includes $30+ million for PSU, $19 million for Multnomah County, and $10 million for Portland Public Schools (out of $169 million), and rather than an Urban Renewal Advisory Committee it will host a URA Stewards Group, made up of institutional representatives and stakeholders representing a citywide economic development perspective.

- Neighborhood Prosperity Initiative (NPI). These six micro URAs more closely resemble the Main Street program than traditional URA management, in that a District Manager and board will oversee management of and investment in each district. The districts were incorporated in April 2012. Each encompasses sufficient residential area to generate $1.25 million in TIF revenue over nine years to invest in a lower-income, East Portland commercial corridor. The districts are in various phases of working towards non-profit incorporation. In the current year the districts will grant $10,000 towards one improvement project, not all of which have been identified. The NPI budgets call for a similar level of direct district investment in FY 2013-14, as organizational capacity gradually develops.

The NPI program responds to equity concerns that City investment in East Portland is lagging. It has garnered support from the neighborhoods as well as the schools and County, which will grant back revenues each receives via shared TIF. The budget calls for General Fund investment of $640,000 in FY 2013-14, 48% of the program's support. Required General Fund support is projected to fall as TIF increases, but average over $390,000 annually through FY 2021-22. The program targets two net businesses, two full time and two part time jobs annually per district (total of 12 businesses and 24 jobs). This is a significant investment at about 60% of the $1.1 million in General Fund the agency has budgeted for its cluster development and business recruitment initiatives.

Decision Package Analysis & Recommendations

Economic Opportunity Initiative, ZD_01, $300,000

EOI provides three years of workforce development and microenterprise assistance to low income individuals. It goal is to increase participant income by 25%. Since 2004, five classes have graduated, with 53% of participants achieving the income target. This package would bring total EOI General Fund support to $1.7 million. PDC anticipates an additional $1.9 million in CDBG funds, bringing the program total to $3.6 million. PDC co-invests these funds with Worksystems Inc (WSI), the region's workforce development recipient of Department of Labor funds.

In the absence of this package, PDC anticipates serving 1,096 individuals in FY 2013-14 (roughly $3,000 per participant, or $6,000 per participant achieving target results). This package would extend services to an additional 120 participants. Based on the lack of discretionary resources, CBO does not recommend funding this request at this time.

CBO Recommendation: $0

Small Business Development Program, ZD_02, $50,000

This package increases the Small Business Development Program – funded exclusively by General Fund – from $550,000 to $600,00 (its current year funding level). The program provides technical assistance to businesses owned by low-income individuals. A total of 234 businesses received assistance in FY 2011-12, the program's first year after being resurrected with newly selected service providers (at roughly $2,500 per business). The program has not selected target metrics but is tracking jobs, sales, owner income and business survival. In FY 2013-14 it anticipates serving 208 businesses. This package would allow an additional 26 businesses to be served. Based on the lack of discretionary resources, CBO does not recommend funding this request at this time.

CBO Recommendation: $0

Startup Investment & Access to Capital, ZD_03, $50,000

This request would support future Startup PDX:Challenges, which provides successful competitors with $10,000 in working capital, technical assistance and one year free rent. PDC launched its inaugural class in February 2013 and will select up to six companies in which to invest in April, supported by Entrepreneurial program funds. Five additional companies could be served through this request. Based on the lack of discretionary resources, CBO does not recommend funding this request at this time.

CBO Recommendation: $0

Cluster Industry Development, ZD_04, $168,463

This request would bring cluster industry investment to its current year service level ($1.14 million) and support implementation of cluster industry work plans, as summarized in PDC's Requested Budget. Based on the lack of discretionary resources, CBO does not recommend funding this request at this time.

CBO Recommendation: $0

Greater Portland Inc, ZD_05, $25,000

This request increases funding for GPI to $125,000 in recognition of GPI's role in coordinating regional economic development initiatives, and particularly its role in implementing the Greater Portland Export Plan. Based on the lack of discretionary resources, CBO does not recommend funding this request at this time.

CBO Recommendation: $0

City of Portland

Decision Package Recommendations

(Includes Contingency and Ending Balance)

	Bureau Priority	Bureau Requested FTE	Bureau Requested Gen Fund Ongoing	Bureau Requested Gen Fund 1-Time	Bureau Requested Other Revenues	Bureau Requested Total Expenses	CBO Analyst Recommendations FTE	CBO Analyst Recommendations Gen Fund Ongoing	CBO Analyst Recommendations Gen Fund 1-Time	CBO Analyst Recommendations Other Revenues	CBO Analyst Recommendations Total Expenses
Portland Development Commission											
Bureau Adds											
ZD_01 - Economic Opportunities Initiative	01	0.00	300,000	0	0	300,000	0.00	0	0	0	0
ZD_02 - Small Business Development Program	02	0.00	50,363	0	0	50,363	0.00	0	0	0	0
ZD_03 - Startup Investment and Capital	03	0.00	50,000	0	0	50,000	0.00	0	0	0	0
ZD_04 - Cluster Industry Development	04	0.00	168,463	0	0	168,463	0.00	0	0	0	0
ZD_05 - Greater Portland Inc.	05	0.00	25,000	0	0	25,000	0.00	0	0	0	0
Total Bureau Adds		*0.00*	*593,826*	*0*	*0*	*593,826*	*0.00*	*0*	*0*	*0*	*0*
Total Portland Development Commission		**0.00**	**593,826**	**0**	**0**	**593,826**	**0.00**	**0**	**0**	**0**	**0**