

## PORTLAND DEVELOPMENT COMMISSION

All Funds Budget Summary	Adopted FY 2013-14	Request Base FY 2014-15	Decision Pkgs FY 2014-15	Request Total FY 2014-15	Percent Change
<b>Resources</b>					
General Fund Discretionary	4,777,437	5,045,564	100,000	5,145,564	7.7%
<b>Total Resources</b>	<b>\$4,777,437</b>	<b>\$5,045,564</b>	<b>\$100,000</b>	<b>\$5,145,564</b>	<b>7.7%</b>
<b>Expenditures</b>					
External Materials and Services	4,777,437	5,045,564	100,000	5,145,564	7.7%
<b>Total Requirements</b>	<b>\$4,777,437</b>	<b>\$5,045,564</b>	<b>\$100,000</b>	<b>\$5,145,564</b>	<b>7.7%</b>

Percent Change is the change from FY 2013-14 Adopted Budget to FY 2014-15 Total Requested Budget.

### Key Issues

#### Declining Revenue from Tax Increment Financing (TIF)

As projected by the Portland Development Commission (PDC) for years and discussed in previous CBO reviews, the precipitous decline in the availability of TIF resources is the most significant issue driving the current and future direction of PDC. The PDC manages 12 standard Urban Renewal Areas (“URAs”) plus six micro URAs; the primary investment resources for the URAs are TIF revenues. Tax increment is generated by the increased assessed value of property within the boundaries of the URA. For FY 2014-15, the forecasted TIF proceeds to PDC (i.e. TIF bond proceeds after debt service) are \$59 million which is a 31% decrease from FY 2010-11 Actuals. The impact of reduced TIF resources extends beyond PDC’s work and also affects City bureaus including Housing, Parks, Transportation, and Planning and Sustainability; each of these bureaus provide services coupled with TIF investments.

**Table 1. Percentage of Non-TIF Revenue**

	FY 2010-11 Actuals	FY 2011-12 Actuals	FY 2012-13 Actuals	FY 2013-14 Revised	FY 2014-15 Forecast
TIF Proceeds (\$ millions)	\$85.3	\$133.8	\$73.3	\$53.7	\$59.0
Total Revenue (includes TIF)	\$112.2	\$157.6	\$103.9	\$87.8	\$90.3
% non-TIF revenue	24.0%	15.1%	29.4%	38.8%	34.7%

The PDC continues to pursue a diversity of resources to sustain its mission. The PDC’s long-term resource planning includes a goal of 50% non-TIF resources. For the FY 2014-15 Requested Budget, non-TIF resources are estimated to make up 34.7% of total revenue.

## Amending URA Plans

URA plans are governed by City Council ordinance and state law. By state law, the total acreage of all URAs cannot exceed 15% of the land area or 15% of the frozen base assessed value (“AV”). In the City, URAs account for 14.3% of City acreage and 12% of the frozen base AV, which translates into 700 acres and \$1.37 billion of AV available for new URA plans or expansion of existing URA plans. Plan amendments can include changes to size, amount of debt authorized, expiration date, scope, etc., but must include analysis of the impact to other URAs, legal maximums, and existing debt outstanding. Due to the 15% limitations described above, amendments to expand URAs or create new URAs may require reductions to other existing URAs. Such reductions may require defeasance of outstanding URA debt or reductions to future URA borrowing plans.

The amount of proceeds from urban renewal bonds available for investment is mediated by (a) maximum indebtedness (i.e. limit on borrowing), (b) the last date that debt can be issued, and (c) the ability of the URA to generate sufficient tax increment revenues to repay the debt. The table below highlights the remaining debt projected to be issued and last date to issue debt for each of the URAs. The last date to issue debt has occurred for the following four URAs: the Convention Center, Airport Way, Downtown Waterfront, and South Park Blocks. The NPIs last date to issue debt is when NPIs reach maximum indebtedness.

**Table 2. Debt Remaining to be Issued as of 3/1/2014 (\$ in millions)**

Urban Renewal Area	Maximum Indebtedness	Debt Issued FY98 thru FY14	Amount Remaining	Last Date to Issue Debt
Education	\$ 169.0	0.75	168.2	2041
Willamette Industrial	200.00	5.3	194.7	2024
Gateway Regional	164.2	37.5	126.7	2022
Six micro URAs (NPIs)	\$7.5	0.0	\$7.5	N/A
River District	489.5	302.2	187.3	2021
Interstate	335.0	162.1	172.9	N/A <sup>1</sup>
Lents Town Center	245.0	115.9	129.1	2020
North Macadam	288.6	129.5	159.1	2020
Central Eastside	105.0	90.6	14.4	2018
Convention Center	167.5	167.5	0.0	2013
Airport Way	72.6	72.6	0.0	2011
Downtown Waterfront	165.0	165.0	0.0	2008
South Park Blocks	143.6	112.0	31.6	2008

Incremental assessed value that generates tax increment revenues establishes the amount of debt that can be issued resulting in resources available for urban renewal projects. Under the status quo across all the URAs, the issuance of remaining debt must occur within the next decade (with the exception of the Education URA). Thereafter, tax increment revenues will be used for paying down outstanding debt and

<sup>1</sup> The last date to issue debt is not required for urban renewal plans even though plans shall estimate the anticipated year in which indebtedness will be retired (i.e. expiration date). See Oregon Revised Statute (O.R.S.) 457.085.

will have very limited availability to fund new projects. The URA capture rate is approximately 35% of property tax revenue that flows to the City. Even after an URA reaches its maximum indebtedness or expiration date, it typically takes several years before the debt is fully repaid and the incremental AV of the district is returned to the tax base for all overlapping taxing districts.

**Tracking Neighborhood Prosperity Initiative (NPI)**

In 2012, six micro URAs were created by City Council ordinance through the Neighborhood Prosperity Initiative. Instead of being managed by PDC, as is the case with traditional URAs, most NPI districts are managed by a non-profit corporation within each district. Unlike traditional URAs, these micro URAs receive City General Fund, shared revenues from the City and Multnomah County, and other funding support in addition to tax increment revenue. For FY 2013-14, NPIs have received Enterprise Zone funding. Additionally, NPI districts are required to raise matching funds. Tax increment revenue provides funding for capital improvement projects. Each NPI district has a maximum indebtedness limitation of \$1.25 million, which was expected to be reached in 2022; however, each year the forecasted tax increment revenue (“TIR”) has been adjusted downward. For example, the FY 2012-13 Requested Budget projection for the FY 2014-15 TIR forecasts was \$505,301; the FY 2014-15 Requested Budget estimated FY 2014-15 TIR forecast is \$299,821.

**Table 3. Downward adjustments of forecasted Tax Increment Revenue (TIR)**

	FY 2012-13 Requested Budget	FY 2013-14 Proposed Budget	FY 2013-14 Adopted Budget	FY 14-15 Requested Budget
FY 2013-14 TIR forecast	\$398,743	\$396,077	\$396,077	\$396,077
FY 2014-15 TIR forecast	\$505,301	\$470,641	\$470,641	\$299,821
<i>FY 2014-15 estimated shared revenues</i>	<i>\$49,433</i>	<i>\$43,527</i>	<i>\$43,527</i>	<i>\$28,916</i>

The NPI urban renewal areas are subject to revenue sharing with overlapping taxing jurisdictions which include the City and Multnomah County. The City and the County have agreed to grant back this revenue to the districts. In the FY 2012-13 Requested Budget, as much as \$49,433 in shared revenue was forecasted across all districts; however, for FY 2014-15 Requested Budget, PDC estimated \$28,916 in shared revenue (a 42% decrease). Shared revenue is tied to the amount of TIR that is generated; as such, lower collections of TIR have delayed revenue sharing in some URAs. Furthermore, shared revenues were expected to be a sizeable amount of the maximum indebtedness. Notably, for two NPI districts (Division-Midway and Parkrose) the estimated tax increment revenues will not generate any shared revenue this year; however, the FY 2013-14 Adopted Budget forecasted that FY 2014-15 shared revenue generated from Division-Midway and Parkrose would be \$7,724 and \$7,905, respectively. NPI districts are not realizing the level of tax increment projected in FY 2012-13; however, it should be noted that when the districts were initially planned it was not understood how the small size of the districts and the method taxes are calculated by the County would affect the TIF.

As already mentioned, the amount of tax increment directly impacts resources available for investments in capital improvement projects. Notwithstanding, the General Fund, through both support and contribution of shared revenues from the NPI districts, helps to sustain the capacity of the non-profits managing the NPI districts; these operating costs are expensed irrespective to level of capital improvement activity. The FY 2012-13 CBO Review expressed concerns that the NPI model might be inefficient given ongoing reliance on General Fund dollars relative to tax increment resources available for capital investments. For General Fund support (excluding revenue sharing), the FY 2013-14 budget is \$396,950, and the FY 2014-15 Requested Budget is \$485,699. The CBO recommends continued assessment of the NPIs dependence on multi-year General Fund (excluding revenue sharing) support.

### Reductions in Operating Budget

The PDC continues to align staffing and overhead with projected long-term resources. In an effort to realize this realignment, the PDC has established a goal for cumulative reductions in the operating budget. The operating budget includes salaries, benefits, and administrative materials and services. Specifically, by FY 2014-15 PDC seeks to reduce the agency’s staff and administrative expenses by 30% from the FY 2012-13 Adopted Budget (\$22.9 million). Between FY 2012-13 Adopted Budget and FY 2013-14 Revised, the projected cumulative reduction is 10%. The FY 2014-15 Requested Budget (\$16.5 million) projects a 28% cumulative reduction from FY 2012-13 Adopted which is 2% short of the target. Missing the target is due to larger than forecasted payments to the PERS Pension Obligation Revenue Bond.

The relationship between operating expenses and program expenses shifts when viewed through the lens of actual dollars spent (versus dollars budgeted). Actual operating expenses decreased 33%% between FY 2009-10 and FY 2012-13, (from \$29.4 million to \$19.6 million, see Table 4 below). During this same time frame, program expense actuals fell by a much larger 46% (from \$127.3 million to \$69.4 million).

**Table 4. Staffing/Operating: Budget to Actuals (\$ millions)**

	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14 Revised
Operating Expenses (year-end actuals)	\$29.4	\$22.5	\$19.4	\$19.6	\$20.6
Program Expenses (Revised Budget)	\$195.8	\$163.5	\$158.7	\$102.5	\$169.6
Program Expenses (year-end actuals)	\$127.3	\$108.3	\$74.4	\$69.4	TBD
<i>Operating actuals as % Program Expenses (Revised Budget)</i>	15.0%	13.7%	12.2%	19.1%	12.2%
<i>Operating actuals as % Program Expenses (year-end actuals)</i>	23.1%	20.7%	26.0%	28.2%	TBD

In the FY 2014-15 Requested Budget<sup>2</sup>, PDC highlighted that recent staffing and other administrative reductions resulted in a 19% reduction from FY 2013-14 budgeted expenditures (from \$15.2 to \$12.3 million). It should be noted that the “Administration” business line, as presented in the PDC budget documents, is a component of the operating budget. That is, the operating budget includes

<sup>2</sup> Executive Director’s Transmittal Letter, PDC FY 2014-15 Requested Budget

“Administration” plus portions of the Business Development, Property Redevelopment, and Infrastructure business lines.

Table 4 above includes analysis of the operating expense actuals compared to program expenses (budget vs. year-end actuals). The variance in budget to actuals, in part, is an indication that some budgeted projects are not completed within the fiscal year. For example, program expense actuals were at their lowest point in FY 2012-13 at \$69.4 million; this is due to the timing of lending and other project expenses (i.e. cash out the door). These budgeted projects may carry over into future years. The operating costs budgeted, however, are consistently expensed within each fiscal year.

In FY 2012-13, operating expense actuals were 19.1% of budgeted program expenses (revised budget). When examining actual program expenses, operating expense actuals were 28.2%. Notably, for the FY 2013-14 revised budget, projected operating expenses represent 12.2% of budgeted program expenses; it is commendable that operating expenses are projected to decrease as a percentage of program expenses. The CBO recommends annual reporting of staffing/operating actual expenses compared to program expenses (budget vs. year-end actuals).

**Sustaining General Fund Appropriations for Economic Development Programs**

The City General Fund helps to support the PDC economic development activities that are not eligible for TIF funding. The two categories of activities are Neighborhood Economic Development and Traded Sector.

**Table 5. PDC Budget from City General Fund**

	FY 2010-11 Adopted	FY 2011-12 Adopted	FY 2012-13 Adopted	FY 2013-14 Adopted	FY 2014-15 Requested
Ongoing budget	2,570,283	2,601,261	2,657,526	4,912,437	5,045,564
One-time	904,843	3,187,065	3,687,065	(135,000)	100,000
Total Budget	\$3,475,126	\$5,788,326	\$6,344,591	\$4,777,437	\$5,145,564
Percent change	N/A	66.6%	9.6%	-24.7%	7.7%

The FY 2014-15 Requested Budget is a 48% increase from the FY 2010-11 Adopted Budget. The 24.7% decrease from FY 2012-13 to FY 2013-14 reflects a substantial reduction in one-time funding (a portion of which became ongoing). Council decided to stabilize PDC’s ongoing budget by shifting away from the historical use of serial one-time. A FY 2012-13 Budget Note called for moving much of one-time support to ongoing. The FY 2014-15 CAL target is \$5,045,564, which demonstrates City Council’s commitment in the past two fiscal years to support PDC economic development activities with ongoing funding.

## Decision Package Analysis & Recommendations

### **Neighborhood Economic Development Grants, ZD\_01, \$100,000, 0.00 FTE**

The package requests one-time General Fund discretionary to support local organizations in their efforts to address economic challenges that are specific to their neighborhoods. To help organizations tackle these challenges, PDC proposes to issue grants for financial and technical assistance. PDC has identified neighborhoods whose economic development activities cannot be funded through tax increment financing. Per Oregon Revised Statute, TIF can only be used for capital improvements, or efforts that lead to capital improvements/redevelopment. Examples of activities highlighted by PDC are marketing, promotions, events, and business networking.

The package proposes to target organizations that perform economic development activities in the Lents Town Center within the Lents URA, along Martin Luther King Jr. Boulevard within the Interstate URA, and in Old Town Chinatown within the River District URA. In each of these three areas, grants of up to \$30,000 each will be awarded; these grants will provide financial and technical assistance driven by the priorities of that neighborhood. PDC proposes that technical assistance might include: PDC staff aiding the grantee in building a project work plan; PDC staff working with the grantee to consider formation of a Neighborhood Prosperity Initiative district; Venture Portland working with the grantee to consider formation of a business district; or other services requested by the grantee based on its needs. Other partners that might provide technical assistance include the Portland Business Alliance, the neighborhood district coalition, or staff from City bureaus.

Currently, support to community organizations in the three identified areas includes tax increment revenues (i.e. Lents, Interstate, and Old Town Chinatown URAs). Without access to a variety of funding sources, community organizations may lack financial capacity to initiate a broader range of economic development activity. The City's equity goals would be advanced by this PDC proposal to further build the capacity of community-based organizations in these URAs.

PDC expects the following results for this add-package: development and implementation of neighborhood work plans; requirements for matching funds to implement the grant; collaboration with key partners; defining and reporting on unique outcomes for each grant; and tracking and reporting expenditures. With regards to specific outcomes, PDC states that performance goals will be informed by the work undertaken in NPI and Main Street districts; these outcomes include new businesses and new jobs. However, it is not expected that the early-stage community economic development efforts proposed in this package will generate outcomes within a year. Through this package, PDC intends to bolster effectiveness by targeting organizations with the existing capacity to manage the grant. Notably, PDC submitted this decision package as falling within the Complete Neighborhoods priority. Budget guidance instructed bureaus to submit add packages in the identified key priority areas or those that are of critical need. However, given the scarcity of General Fund discretionary resources, the CBO does not recommend funding.

*CBO Recommendation: \$0*

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

	Bureau Requested					CBO Analyst Recommendations					
	Bureau Priority	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>Key Priorities</i>											
ZD_01 - Neighborhood Economic Development Grants	01	0.00	0	100,000	0	100,000	0.00	0	0	0	0
<i>Total Key Priorities</i>		<i>0.00</i>	<i>0</i>	<i>100,000</i>	<i>0</i>	<i>100,000</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
<b>Total Portland Development Commission</b>		<b>0.00</b>	<b>0</b>	<b>100,000</b>	<b>0</b>	<b>100,000</b>	<b>0.00</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>