September 9, 2014 Financial Sustainability Committee Meeting

Questions from the Committee

"What information do you need or questions do you have that would help you participate in/contribute to this process?" *Draft answers in italics*

Staffing/Operations

- Is the Portland Development Commission's (PDC) current staff right sized to achieve core functions?
  We are assuming that we are solving for the current size of PDC, although the appropriate size may depend on scale of new or expanded economic development programs outlined in the Strategic Plan and PDC's ability to leverage local partners to fund and/or deliver such programs. Current PDC staffing levels (93 Full Time Equivalents (FTE)) are slightly above the median of 10 peer organizations (79 FTE). However, mission, functions and size of capital budget vary significantly between peers.

- What is the overall yearly budget (operating and capital that is needed once Tax Increment (TIF) is complete and PDC is pursuing the new strategic plan? *PDC has an annual operating budget of roughly $25-30M depending on the level of program activity (program activity includes funding for capacity building technical assistance carried out by partners in addition to the operating costs of paying staff and rent). Through a number of interviews with PDC staff and Portland business and community leaders, it was widely believed that there is not adequate funding for the community economic development neighborhood capacity-building. Even in Urban Renewal Areas (URA), this work is not TIF eligible. Once TIF is spent, the nature of the need for capital is unknown. It depends what problems we are asked to solve.*

- What was the impact of splitting off housing? Efficiencies gained or lost? *The intent of splitting off housing was to have PDC focus on job creation and revitalization. Since the split, PDC has produced and implemented an Economic Development Strategy and Neighborhood Economic Development Strategy and the recent Strategic Plan.*

PDC Mission

- Is this a time to re-evaluate/re-adapt PDC's role as the City of Portland's (City) economic development arm?*This could be a discussion at meeting 4, when we will perform a Strengths, Weaknesses, Opportunities, Threats exercise focused on how PDC would transform financially and structurally from what it is today to a model that supports the direction of the strategic plan.*

- Of the examples of city department + either publicly controlled or privately-controlled entities, how is the strategy/policy of economic development set (specifically referring to HR&A slide #3)?
  - *In NYC, Philadelphia, Chicago, San Francisco, Boston, San Diego, and Pittsburgh, policy agenda is driven by the Mayor and his/her administration, with planning and implementation of specific initiatives and transactions led by agency staff; all cities benefit from Mayor-Council system with strong mayoral leadership*
  - *In Atlanta, policy agenda is set by the Mayor but majority of Invest Atlanta board is appointed by City Council with additional members appointed by the Mayor, County and Atlanta Public Schools*

- *In Austin, policy agenda is set collectively by Mayor and Council due to council-manager system*

- Do we solve to our aspirations or adjust aspirations to our resources? *For the committee to discuss in light of a strategic plan that is perceived to be ambitious.*

- What should PDC's core function be (I need to review the Strategic Plan). Future resources need to align. *This is precisely the charge of the Financial Sustainability Committee.*

- Money should follow the problem, not vice versa! TIF was created on state levels to "eliminate blight." What current and future "urban" issues does PDC anticipate that requires talents to solve? Funding needs to follow the problem (I will read the strategic plan). *This is why the Financial Sustainability Committee was established by the Board; because the financial status quo, a waning environment for the tax increment tool (both what is remaining and the many constraints put on the tool for the last twenty years)*

Politics

- Are there politically unpalatable options we are not exploring? *It is within the purview of the Financial Sustainability committee to discuss this.*

- If the city truly will no longer be using urban renewal, will the committee be given the opportunity to consider moving the economic development function into a new city bureau? *The city may continue to use TIF, however as recent actions have indicated; it may not be used to the same extent. It would be up to City Council to change the status of PDC. This committee is to make recommendations to the PDC Board on financial sustainability including structural changes to ensure that financial sustainability. If it is a recommendation that financial sustainability is best achieved by moving the economic development function into a new city bureau, then it is in within this committee's scope to recommend that.*

- What level of political/city council understanding exists about the conundrum of a subsidy-mission agency being put in the position of generating market rate returns to pay its operating costs?

- What political process/City Hall approval will be required to move forward with recommendations/strategies? *This committee will make recommendations to the PDC Board. Recommendations may or may not require City Hall approval technically, though the committee's recommendations would certainly be shared with City Hall.*

Process

- Please put all the meeting materials on PDC's website so other community members can see them. http://www.pdc.us/for-partners/public-participation/financial-sustainability.aspx

Timing

- How long should we anticipate the different funding options to come to fruition? *Depends on the funding options but likely years. For example, New Markets Tax Credits (NMTC) took three years to generate substantive revenues. Commercial Property Assessed Clean Energy (CPACE),* *recently approved by the PDC Board and Multnomah County, was originally projected to break even 4-7 years from inception. After 10 years, a low production scenario was expected to generate almost $700,000 in annually recurring net income. These figures were before modifications to the program were made that may prolong the time it takes to break even and generate income.*

TIF

- What should the next URA's be? *Tax increment district creation is typically initiated at the direction of the Mayor.*

- What entities (governments) benefit and to what extent (forecast) from TIF sun setting? When and $ estimates? *Based on current forecasts, district payoff dates range from 2020 (Airport Way URA) to 2030 (North Macadam and Gateway URAs). Taxing jurisdictions who benefit will include all overlapping jurisdictions that overlap URAs: City of Portland, Multnomah County, PCC, the Library District and to a lesser extent Soil and Water Conservation Districts and Metro. Any bond levies at the time of defeasance would result in a tax savings to tax payers (since bond levies are levied based on amount needed to pay debt service). Overlapping school districts will benefit as well, however, additional tax revenue to schools is less of a direct benefit as their funding is equalized by the state school fund formula.*

  The amount that will be received by overlapping taxing jurisdictions will depend on how much incremental assessed value occurs in each district, recent amendments that eliminated the Education URA and reduced the River District URA is currently returning approximately $5M last year and is estimated to provide $237M over the next 20 years (mainly due to elimination of the Education URA).

  Looking forward, when Airport Way URA is paid off in 2020, it will return $2M/year to taxing jurisdictions (note $4M/year is already being returned since it is an older, Option 3 type district, which share revenues above a set amount that comes to PDC). Annual return will grow to over $28M/year by 2025 when all other option 3 districts are retired and Central Eastside. Total return will be over $180M/year by 2030 once all existing URA's are retired. This is a conservative estimate based on mostly conservative 3% growth – higher taxable investment in these areas could result in higher tax increment, meaning some districts could pay off sooner and ultimately result in higher tax revenue for overlapping jurisdictions. These amounts are net of the amount that River District and Central Eastside are projected to provide via revenue sharing, where some portion of the tax increment is shared with the other taxing jurisdictions similar to Option 3 districts.

- Is TIF sun setting a choice or inevitability? I.e., was this a problem that was always going to surface at the end of the day? *TIF district sun setting is inevitable for any existing urban renewal area (mid-90s voter-approved measures created district maximum indebtedness and district expiration dates beyond which bonds could no longer be issued. However, districts can be expanded geographically (maximum 20% of original acreage) and expiration dates extended in order to reach maximum indebtedness. Maximum indebtedness (MI) can be increased as well (20% of initial), however doing so triggers revenue sharing (where growth in tax increment triggers a release of tax increment back to taxing jurisdictions). For example, maximum* *indebtedness was recently increased in Central Eastside to help achieve development goals around Clinton Triangle.*

Currently, only Gateway URA and to a much lesser extent Lents and North Macadam URAs are not forecast to reach maximum indebtedness in our forecast. North Macadam and Lents may reach existing MI (resulting in additional tax increment) in future forecasts if certain taxable value occurs in those districts.

Additional districts could be formed with new MI, acreage and life span within the legal constraints of 15% of the city's assessed value and 15% of the city's acreage (see discussion on legal limits below), however, there is usually a significant "ramp up" time for new URA's to realize resources from incremental growth in assessed value. Moreover, due to changes in ORS 457 in 2008, new districts or substantially amended districts (due to increasing MI), are subject to revenue sharing which directs more tax increment revenue to overlapping taxing jurisdictions which has the effect of slowing the amount of tax increment that accrues to the urban renewal area (and ultimately capping the amount when annual tax increment revenues equal 20% of the area's established maximum indebtedness).

- How does borrowing capacity change when districts sunset? *Districts have two different "end dates" (1) the date final TIF debt can be issued for projects (2) the date when all debt that has been issued for projects is paid off through tax increment collections. For example, Downtown Waterfront URA and South Park Blocks URA both had debt issuance expirations in 2008 and will pay off their debt in 2024. Borrowing capacity is subject to the specific performance of individual URAs as a result of a districts maximum indebtedness and growth in assessed value and resulting tax increment to support debt issuance. In terms of adding capacity to create new districts, the city is limited to 15% of the assessed value to be part of the frozen base and 15% of the acreage to be within the boundaries of urban renewal areas. Assessed value and acreage from expired districts cannot be added back to the available 15% limits for a new URA until the debt is paid off (see discussion related to "legal limit" below for discussion on remaining caps). If a new district is created using value and acreage from expired districts, there is usually a "ramp up" for borrowing capacity as it takes time for tax increment to grow over a new district's frozen base.*

- Can TIF funds be invested now that will generate revenue after expiration of (an) URA (allowable uses of future program income)? *Funds can be invested in a way that generates revenue after the expiration and debt repayment. The outstanding question has always been if there is ever a point when later generated revenue still is restricted to the URA boundary.*

- How far away is PDC from the legal limit for urban renewal areas within the city? *There are two limitations on urban renewal areas; amount of assessed value in the frozen base and amount of acreage. The City is limited to 15% of the city's assessed value to be included in URA frozen base and 15% of a city's acreage within URAs. After the URA amendments that were approved last spring, total acreage is 12.3% of the city (remaining acreage is approximately 2,500) and total assessed value is 10% (remaining assessed value is about $2.8 billion).*

Other Revenue Sources

- Can PDC collect fee revenue (i.e. utilities surcharge) after district sunsets? *There is no prohibition from PDC collecting fee revenue after a district expires (can no longer issue debt), expends all* *bond proceeds or pays off its debt. Utilities surcharge are not related to the current tax increment system.*

- Why not partner (JV) with private real estate development for long term cash flow – pay off investment as bonds pay off? *This is possible*

- What options are there for State (of Oregon) funds given increased state tax revenue associated with a successful strategic plan? *It is difficult to ascertain availability of state tax resources for PDC-related activities. Historically, the availability of the tax increment tool has been the de-facto indirect State contribution (that portion of property taxes in TIF districts and Option 3 tax increment that would otherwise go to the State). The State, through Business Oregon finance programs, however, has partnered with PDC financing on certain projects. In addition, the State has gainsharing as part of its Strategic Investment Program (SIP), which shares income tax revenue with local jurisdictions that attract large businesses (e.g., Intel) within their boundaries.*

- Would like more detailed and specific information on the type of investments that PDC would make and the economics of those investments. To attract additional and new sources of funding, PDC will need to overcome the track record of having invested in assets that today have NBV (Net Book Value?) > Fair Market Value. *Information in the briefing book prepared ahead of Meeting #2 may help clarify the type of investments, but will also require deeper research.*

- Do hotel taxes go away with the district sun setting? *Hotel taxes (transit lodging taxes are not related to tax increment as they are more of a sales tax (the State's only sales tax).*

- Borrow bond money – *It is possible. Bonds are issued for specific projects or programs (such as tax increment bonds, revenue bonds) and must be underwritten for repayment. Bonds are very expensive to issue so the cost of issuance must also be financed, which requires a certain scale.*

- What are the rates for City (bonds) 4.5% - 5%? Amortization 20 years. Use this money to stimulate growth as an owner (equity partner/participating lender). *Bond rates depend on whether the city issues taxable or tax-exempt debt. Taxable debt must be used where PDC is loaning funds and working with private entities. Tax-exempt debt is used for creating public assets such as parks and streets. Terms are usually 20 years. Rates currently range from just under 3% for tax-exempt debt to around 5% for taxable debt. PDC only issues long-term debt when there is a greater need for cash than is forecast from short-term debt (dujour). Short-term debt, also called dujour, is the issuance of overnight debt that converts tax increment collections in-excess of what is required to pay debt service on existing bonds to debt proceeds so it can be used on current year projects. There is no financing cost associated (other than minor issuance costs). PDC has (and will continue) to utilize short-term debt to the greatest extent possible in order to minimize financing costs and maximize the amount of tax increment that is ultimately used for projects and programs during the life of each URA. PDC, as a government agency cannot have ownership in private equity, but can loan funds to support projects.*

- Can we discuss other ways to pay for capital projects? Describe types of capital projects currently funded by PDC. Could city bureaus like transportation, parks, etc. cover those costs? *More and more PDC has been unable to fund transportation, parks and long-range planning projects and the respective bureaus are less apt to request funding. Still, some $41 million for*

projects is in the current 5-year plan (with another $170 million in question for additional affordable housing set-aside. Aside from infrastructure projects, PDC has provided grants and loans to real estate projects and businesses that have gaps in funding that would result in public benefit, primarily job creation. Tax increment funds can only be invested into physical improvements to real estate within the geographic boundary of the URA. City General Fund or other funds PDC has obtained over the years from other sources (such as the Economic Development Administration) have been loaned for working capital and equipment purchases. Examples include storefront improvements, seismic improvement loans, loans for real estate development for businesses small and large such as Showers Pass, Classic Foods, Viewpoint, Vestas and Daimler.
In addition, other cities (e.g. Chicago, New York and Cincinnati) have partnered with privately-controlled non-profits to fundraise for high-profile projects, including costs for both capital and ongoing operations.

- Are there opportunities that exist with the federal designation of "[promise zones]"? *There may be. The Federal Government authorized up to twenty Promise Zones nationwide: urban, rural, and tribal communities where the Administration would partner with local leaders to create jobs, increase economic activity, improve educational opportunities, and reduce violent crime. In 2014, President Obama announced the five First Round Promise Zone designations, eight Second Round Promise Zone designations were announced in April 2015. There is a competitive application process.*

- How do we advocate for more general fund resources from the City? *Make it a recommendation.*

- What role can foreign investments play in helping PDC's sustainability? *We are currently experimenting in numerous ways but only at the earliest of stages with a great deal to learn and patience to ascertain. All efforts are for fee income and has required significant staff time (2+ FTE) capitalizing on multi-decade effort. Foreign Direct Investment is important strategically, though fee income will take years to generate anything substantially, though matters could certainly change.*

- Is there a way to better coordinate with the Federal Government's economic development arm so as not to work at cross purposes? *PDC regularly works with partners and directly to coordinate with Federal economic development programs from Departments of Commerce, State, Transportation, etc.. Staff is certainly interested in recommendations from committee members if there are suggestions on how PDC might improve its coordination.*

- How PDC investigated where and how philanthropic source of capital have come into play? What were the circumstances and rationale? I.E., why were the funders compelled to invest? *PDC has, and continues to receive some funding from philanthropic sources, for example $300,000 annually from the Northwest Area Foundation, dating back to activities that were initiated by the former Bureau of Housing and Community Development that have since been merged into PDC. Since then, PDC has only started to explore this funding source, both locally and nationally (nationally at the encouragement of the Council of Development Finance Agencies, a trade association of economic development organizations). Discussion have only just begun but included national organizations, compelled by overlapping missions and ability to deliver a pipeline of mission and program related investments.*

- What is the current flow ($) of hotel tax etc. that flows to PDC (if any)? *No hotel tax flows to PDC currently.*

- Could PDC or an affiliate entity create a REIT or similar mechanism to generate investment? *If PDC were prevented from creating a REIT due to limitations on equity ownership, PDC has set up an affiliate entity, Portland Economic Investment Corporation, that could potentially create a REIT or similar mechanism.*

- Can we have a list of all real estate owned? *A list of PDC-owned properties is provided on the website.*