

PROSPER PORTLAND

Portland, Oregon

RESOLUTION NO. 7477

ADOPTING AN UPDATE TO THE PROSPER PORTLAND FINANCIAL SUSTAINABILITY PLAN AND AUTHORIZING AN AMENDMENT TO THE PROSPER PORTLAND FINANCIAL INVESTMENT POLICY

WHEREAS, on July 18, 2018, through Resolution No. 7281, the Prosper Portland Board adopted the Prosper Portland Ten-Year Financial Sustainability Plan (“FSP”), which included the following four objectives: i) optimize both public benefits and financial return of the remaining tax increment funds and existing real estate assets; ii) secure additional public funding to support economic and community development programs; iii) partner with public agencies to deliver real estate development activities that achieve public priorities; and iv) seek additional revenue for capital and operations by leveraging core expertise;

WHEREAS, on April 14, 2021, through Resolution No. 7412, the Prosper Portland Board adopted an updated and revised Financial Investment Policy to guide Prosper Portland’s real estate and financial investments and to ensure that proposed investments are appropriately reviewed to minimize risk, maximize public benefits, ensure the agency’s equity and other policies are being followed, and facilitate the repayment of public funds, and a financial return on investment in alignment with both the FSP and Equity Policy as adopted in August 14, 2019;

WHEREAS, given the dramatically changed economic conditions in the city, staff determined it was necessary to revisit the business model and assumptions contained in the FSP; and

WHEREAS, the analyses performed reaffirmed much of the FSP, built on lessons learned, and also indicated that some important changes were warranted, including development of a model that addresses both operational and capital financial needs to maintain a level of service that responds to community priorities and helps create widely shared prosperity for Portlanders.

NOW, THEREFORE, BE IT RESOLVED, that the Prosper Portland Board hereby adopts the Financial Sustainability Plan Update (“FSP Update”) attached as Exhibit A to this Resolution;

BE IT FURTHER RESOLVED, that the Prosper Portland Board adopts an updated Financial Investment Policy attached to this Resolution as Exhibit B (which supersedes the prior Financial Investment Policy), to create the Strategic Investment Fund and provide for its management and administration;

BE IT FURTHER RESOLVED, that the Prosper Portland Board directs staff to implement the FSP Update, and to return prior to June 30, 2024, with recommendations for any additional program modifications or activities required to carry out the direction of the FSP Update, for further

consideration by the Prosper Portland Board; and

BE IT FURTHER RESOLVED, that with the affirmative vote of no less than four commissioners for this resolution, this resolution shall become effective immediately upon its adoption, and otherwise it will take effect thirty days after adoption.

Adopted by the Prosper Portland Commission on

March 8, 2023



Pam Feigenbutz, Recording Secretary

PROSPER PORTLAND FINANCIAL SUSTAINABILITY PLAN UPDATE

ADDENDUM 1

MARCH 2023



Building an Equitable Economy



INTRODUCTION

In July 2018, Prosper Portland’s board adopted the Ten-Year Financial Sustainability Plan (FSP), a blueprint to guide the agency’s financial and business practices in the context of declining tax increment financing revenues and the need for more flexible resources to support inclusive economic prosperity. This new multipronged approach aimed to fund an annual operating budget of \$30 million and to maintain levels of service across Prosper Portland’s business lines.

In the first two years Prosper Portland made significant progress toward creating the infrastructure and internal processes necessary to implement the FSP: developing plans for each property, implementing new property management software, updating investment criteria, and securing additional public resources. While income-generating investments lagged, the launch of new loan products and projected returns from the TIF investment in the Broadway Corridor showed promise.

Then came 2020, a year of public health crisis and cultural upheaval with immediate and enduring economic repercussions. Public health directives saved lives and closed businesses to customers, dramatically reduced tourism activity, and sent thousands of office workers home. Individuals lost income. Businesses lost revenue. The central city, commercial corridors, and public entities at all levels experienced major economic impact. And many of the FSP’s projected income drivers diminished as well, with significant impact to Prosper Portland’s financial forecast.

Prosper Portland experienced immediate financial loss with lower property income from garages, a hotel, and ground floor retail spaces, alongside modifications of lending agreements and significantly higher property management costs. And in this uncertain economic context, the Broadway Corridor agreement passed by City Council eliminated nearly \$4 million in anticipated annual revenue for more than a dozen years and required cost containment measures as City General Fund projections declined.

In this context, the Prosper Portland Board enabled investment of reserves to maintain near-term levels of service and supported the establishment of a cross-functional committee, known as “FSP 2.0,” to reevaluate the original plan’s assumptions and ensure a viable path forward. At the same time, staff continued to pursue key elements of FSP with the implementation of new loan products, pursuit of new TIF districts and dedicated Boomerang revenue, and administrative cost containment.

FSP 1.0 vs FSP update

The following addendum, referred to as the “FSP update,” retains the overarching blueprint and goal of the 2018 10-Year Financial Sustainability Plan. Together, they present a business plan grounded in a social impact investment model with less reliance on TIF, more diversified funding streams, and necessary cost containment measures. This approach reinforces the necessity of investing most resources to achieve both financial and mission impact.

This fresh look at the 2018 plan also incorporates some significant refinements, which are detailed in the addendum to the original plan. Evaluation of lessons learned and implications of current economic trends enabled the development of a more advanced financial model that builds on performance to date, incorporates new loan products, considers both operating and capital funding requirements, and applies the updated legal interpretation of program income.

If successfully implemented, the updated plan will enable Prosper Portland to fund an annual operating budget of \$30 million (on a present value basis) and serve the community both today and in the future.

An Updated Framework

The original FSP business model (Figure 1) incorporates four key components to guide related actions:

1. Optimize both public benefits and financial return of the remaining tax increment funds and existing real estate assets
2. Secure additional public funding to support economic and community development programs

3. Partner with public agencies to deliver real estate development activities that achieve public priorities
4. Seek additional revenues for capital and operations by leveraging core expertise

Component 1, “Optimize Remaining Resources,” represented 64% of modeled revenue over 10 years and included both the TIF restricted and program income. Component 2, “Secure Additional Resources,” represented 22% of modeled revenue over the same period and focused primarily on allocating Boomerang revenue. No revenue target was associated with Component 3, “Partner on Real Estate Development,” which focused on project-specific partnerships with other public entities. Component 4, “Seek New Revenue,” represented 14% of modeled revenue and included creation of new TIF districts and pursuit of New Market Tax Credits to generate both capital and operational revenue.

Given experience operationalizing the original framework and with the goal of increasing “implementability,” FSP update reorganizes the components and provides additional clarity on specific portions that had previously been purely conceptual.



Figure 1

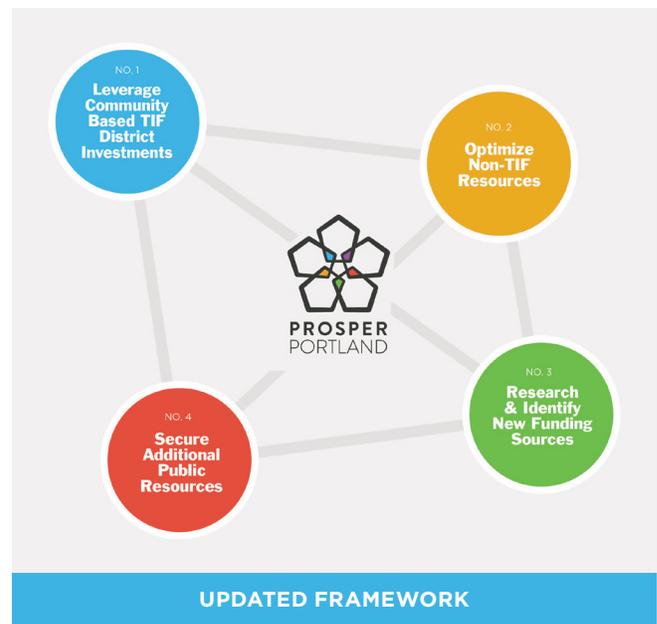


Figure 2

Specifically, the updated framework (Figure 2) is structured around the following four updated objectives:

1. Leverage community-based TIF district investments to deliver on community-defined priorities and secure financial return of the dedicated tax increment funds and related assets. 44% of remaining TIF invested in grants and infrastructure with no return and 56% of remaining TIF invested in loans or other investments that, on average, generate a 3.8% return. Average return is 2% when including all grants and infrastructure investments.
2. Optimize both public benefits and financial return of non-TIF restricted resources. An average return of 7% / year is expected when these resources are deployed.
3. Research and identify new funding sources for programmatic, operational, and capital investment priorities from public and private sources.
4. Secure additional public resources to maintain key business lines and to deliver activities that achieve public priorities.

Objective 1, “Leverage Community-Based TIF district investments,” incorporates the portions of Component 1 focused on TIF-restricted resources and assets as well as the program income (unrestricted) assets assigned to community-based action plans. Objective 2, “Optimize Non-TIF Resources” incorporates the remaining portions of Component 1 and focuses on the strategic deployment of program income and other flexible revenue streams. Objective 3, “Research and Identify New Funding Streams,” combines the analysis and partnership development anticipated across Components 2, 3 and 4, recognizing the need to seize opportunities and innovate over time. Objective 4, “Secure Public Resources,” incorporates portions of Components 2 and 4 including the pursuit of Boomerang revenue and creation of new TIF districts.

New Operating Revenues Through 2031

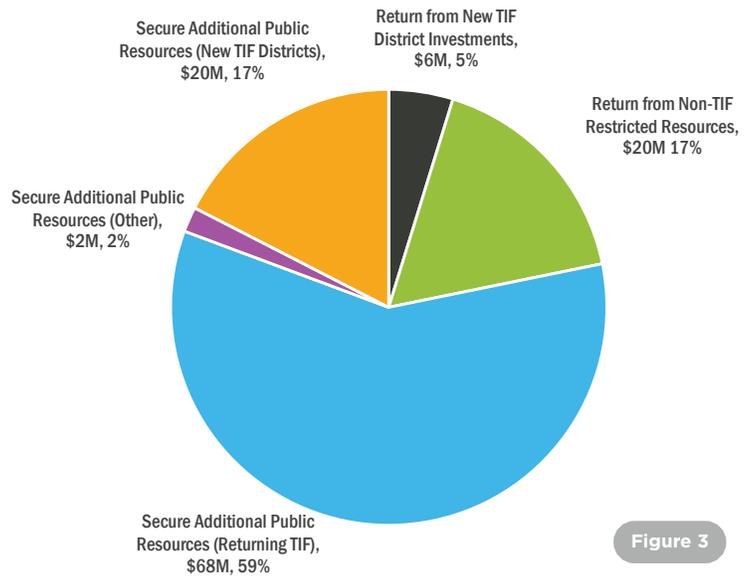


Figure 3

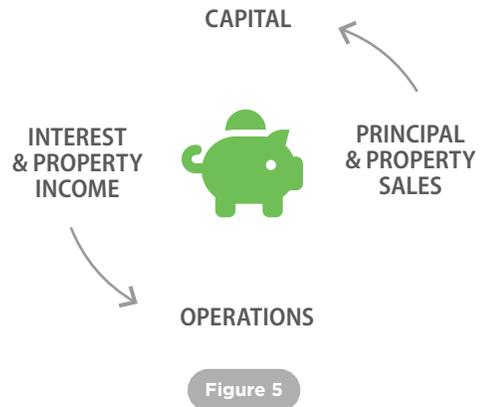
Model and Significant Assumption Changes

The financial model that accompanied the original framework solved for the operational funding gap caused by declining TIF, and identified how application of the framework and related revenue streams could close that gap. An important evolution of the revised FSP is the integration of lessons learned and the integration of capital needs alongside operational requirements throughout the plan that had been identified as a key priority in the previous framework in “Component 4.”

The updated financial model projects revenue streams based on what the agency had previously been able to accomplish. The updated model now includes more specific assumptions around property dispositions, operating asset investments, lending products and production targets based on past performance and current community needs. The model also assumes a certain portion of revenues are committed to stabilize the agency’s annual operational needs and certain revenues are pooled for capital reinvestment.

The updated model also incorporates an updated accounting of and specific opportunities to use Program Income (defined below) in two key ways: i) to respond to TIF district commitments where there are existing Action Plans or other priority commitments and ii) to deliver on Prosper Portland’s mission city-wide and as a key source of both investment and revenue outside of TIF districts. A detailed analysis, on a TIF district-by-district basis, was performed to identify remaining commitments and remaining funds (both TIF and non-TIF) available to meet those commitments.

The updated model is represented below visually (Figure 4) and illustrates the current financial model by sources, on the left-hand side – which includes existing general fund and TIF as well as new public resources and program income generated from the agency’s investments – and aligns those sources to the uses described on the top – including economic development programming, real estate and community development investments and related staffing and administration. The model also considers both the operational requirements associated with deployment of capital and operations of real property.



FUTURE STATE

SOURCES	USES							
	Econ. Development Programming	Staffing & Administration	Development	Lending Operations	Lending Capital	Property Operations	Property Capital	
1 City Resources								
General Fund	●	●						
Boomerang	●	●						
2 TIF								
Existing TIF	●	●	●		○		○	
New TIF	●	●	●		○		○	
3 Program Income								
Lending Interest	●			○				
Principal					○			
Dispositions		●	●	○	○	○	○	
Net Operating Income		●		○	○	○	○	
Starting PI		●		○	○	○	○	
4 Future New Income	●	●	●		●		●	

Figure 4

Objective 1. Leverage Community-Based TIF District Investments [Changes]

Component 1, “Optimize Remaining Resources” within the original framework established a social impact investment model that included three investment typologies: Mission-Related Investments that generated a 6% return, Program-Related Investments that generated a 2.5% return, and Grants/Infrastructure investments within an established “set aside” target.

The related financial model anticipated:

- Additional earned income from Prosper Portland-held real estate would achieve Mission-Related returns
- New Loans would meet Program-Related return targets
- And return on remaining TIF on Action Plan or other significant district projects would achieve a mixture of Mission- and Program-related returns, depending on the market strength and strategic objectives by district.

Most of the returns generated in the original financial model were anticipated to accrue from additional earned income from Prosper Portland-held real estate and the remaining TIF proceeds to be invested.

As a result of the analysis of past performance and current economic realities, the updated financial model related to Objective 1 includes the following key changes:

- A detailed analysis of remaining TIF resources needed to complete district Action Plan goals and what type of returns they may yield. Investments were categorized as either 0% (grants and infrastructure), 2% (large loans), or 6% (small loans and property acquisition/disposition.) The most significant change was the reclassification of all Broadway Corridor investments as 0% within the 10-year timeframe of the model.
- Identification of excess program income available in each TIF District that could be moved to the Strategic Investment Fund described in Objective 2 to make new, non-TIF investments in new loan and real estate investments. While this was a component described in the original FSP, this refinement increases clarity and implementability.
- Between 2018 and 2022, some projects that were included as projected new revenue such as the Convention Center Garage started operations. Revenues and expenditures are included in the existing portfolio of projects and, like many other assets, have performed below projections due to the pandemic and timing of recovery. Many other projects that were included (e.g. Workshop Blocks, Old Town Action Plan, and 92nd and Harold) have not yet been implemented as identified in the original model.

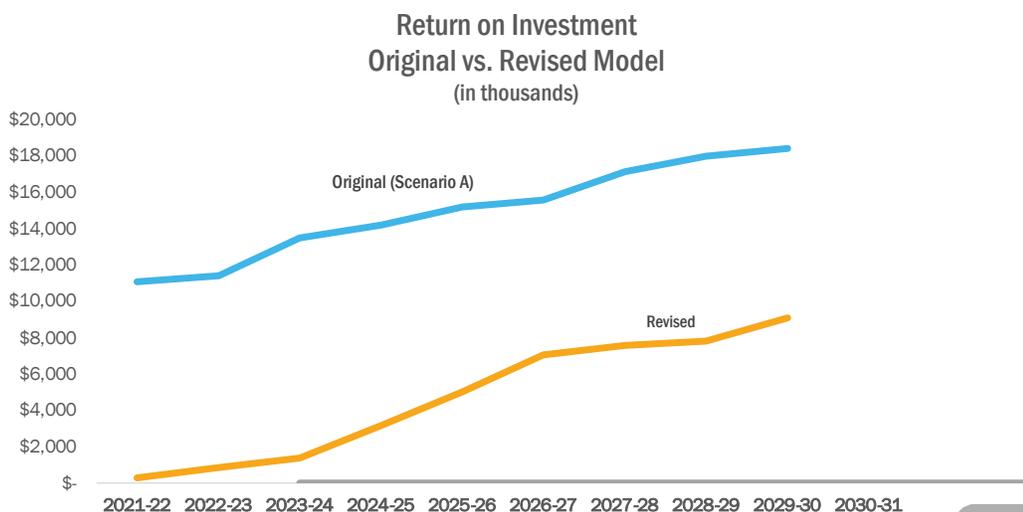


Figure 6

In total, projected new operating revenue from this category in the revised model is approximately 25% of the projection from the original model in FY 2026-27 and approaches 50% of the amount modeled for FY 2029-30.

Objective 2. Optimize Non-TIF Resources [Changes]

As described above, this section was aggregated, with the prior section, into “Optimize Remaining Resources” in the original analysis. Recognizing that a significant portion of those “remaining resources” were not TIF but were instead funds generated from TIF investments, the agency engaged outside legal counsel who confirmed that program income carries neither the use type restrictions (“sticks and bricks”) nor geographic restrictions of TIF.* Prosper Portland has reviewed these findings with the City attorney who concurs with the interpretation.

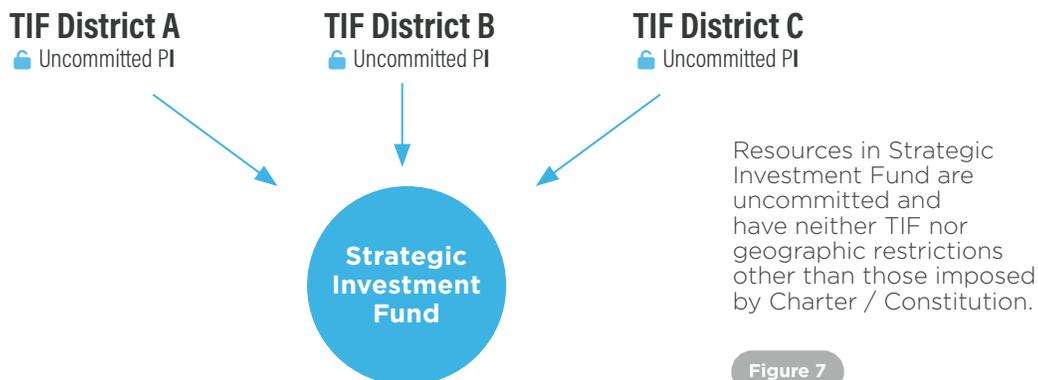
Prosper Portland uses the term “Program Income” (PI) to categorize funds that have been generated through the return on investments the agency has made within TIF districts using Tax Increment Financing to implement on TIF district plans and related community priorities. Examples of program income include interest and principal on loans, net cash flow generated from operating properties, and proceeds from the sale of properties for public-private development projects. Within the financial model, program income

supports operating costs through things like annual loan interest repayment; net operating income; and land leases; and supports a revolving capital pool through things like loan principal repayment or recapitalization of operating assets.

METHODOLOGY AND RESTRICTED VS. UNRESTRICTED PI

With new clarity on the flexibility of PI the agency performed an accounting exercise to determine the total amount of program income generated. Further analysis broke down how much of those funds would be required to meet community commitments the agency had made across various TIF district Action Plans (i.e. “restricted PI.”) Total PI less restricted PI is the “unrestricted PI” balance available to be invested across the city and with no restrictions other than those imposed on Prosper Portland as a whole. This understanding will be reflected in the agency’s budgets and the updated financial model incorporates this refined understanding of the level of PI available to be invested without TIF restrictions.

As part of the implementation phase of FSP 2.0, a new fund within the agency’s budget called the “Strategic Investment Fund” (Figure 6) will be established in FY 2023-24. Operating properties will be transferred to this fund during over FY 2023-24 as well.



* Except those restrictions that relate to Prosper Portland as a whole, i.e. to operate within the City of Portland.

The updated FSP and Objective 2 work plan also consider strategic investments of unrestricted program income that would best serve short-term and long-term community needs. The financial model carried forward these ideas:

- New loan products including real estate acquisition and mezzanine debt
- Use of existing lending products outside of TIF districts
- Direct real estate acquisitions by Prosper Portland, and
- Strategic investments in existing revenue generating properties

Following creation of the “Strategic Investment Fund,” staff anticipates bringing forward a series of new investment tools for the board’s consideration.

(Boomerang, E-Zone, and new TIF districts), the report identified spot TIF districts and new charges for services as potential tools for the agency. The report also identified a more systematic pursuit of grant funding and pursuit of portions of existing or new tax streams as worthy of exploration.

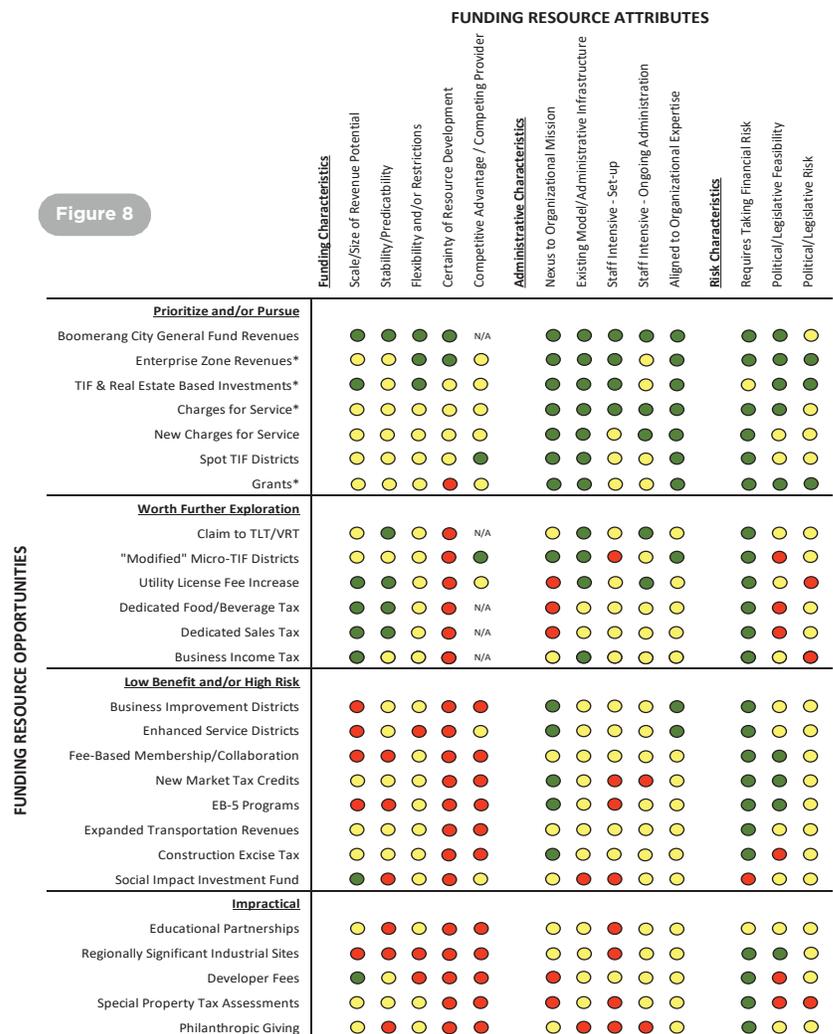
The Council for Development Finance Agencies (CDFA) was contracted to evaluate the merits of building capacity to secure grant funding. They concluded that additional capacity would be an advisable strategy. Their report (attached as an exhibit to this addendum) describes a path to staffing the function internally and some potential funding sources, and discussed the merits of creating a Community Development Finance Institution (CDFI) within Prosper Portland.

Objective 3. Research and Identify New Funding Sources [Changes]

The original FSP anticipated the pursuit of New Market Tax Credits and Boomerang as well as other real estate project-based partnerships as potential sources of ongoing or one-time revenue sources. Based on lessons learned in the pursuit of these sources as well as major shifts in the economic landscape, DA Davidson and Associates was hired to revisit best practices for economic development agencies to determine if there were significant new areas the agency should be pursuing. The report found that while there were a few areas for additional exploration, for the most part, Prosper Portland was pursuing the most relevant and appropriate streams of revenue. Figure 8 is the summary graphic from that report.

In addition to reaffirming that Prosper Portland was pursuing the most viable income streams

Figure 8



REVENUE EVALUATION RESULTS

Source: ECONorthwest

● LOW ● MED ● HIGH

	 ADEQUACY	 STABILITY	 EQUITY	 IMPLEMENTATION	 NEUTRALITY	 NEXUS
City Business License Tax						
Utility License Fee						
Food & Beverage Tax						
Vehicle Rental Tax						
Transient Lodging Tax						

Figure 9

Finally, EcoNW was contracted to evaluate both the potential viability and advisability of pursuing portions of existing or new tax revenue streams. Their full report is attached as an exhibit, and the summary graphic is above (Figure 9). The icon color in each box indicates low (red), medium (yellow), or high (green) alignment with the horizontal axis criteria.

Staff recommend that further exploration is merited related to an increase or reallocation of city Business License Tax and/or Transient Lodging Tax while acknowledging the current challenges businesses face in evaluating the ratio of tax-to-value proposition. Neither grant revenue nor alternative tax streams are currently incorporated in the model but should be explored in the years ahead.

Objective 4. Secure Additional Public Funding [Changes]

The financial model that accompanies the original FSP anticipated returning tax increment (Boomerang), fees from \$200 million in New Market Tax Credit investments and the creation of two new TIF districts for total new operating resources of \$86 million through 2031 (or \$12.5 million per year by 2031). Based on lessons learned, the timing of actions taken, and additional financial data, the updated financial model includes the following assumptions and adjustments resulting in \$72 million (or \$15 million per year by 2031). In summary, the delay of new TIF districts and removal of New Market Tax Credit fees from the 10-Year Forecast reduce short-term revenues. However, the revised forecast for

Boomerang revenue exceeds the original projection due to the timing of TIF district payoffs, providing a greater net annual amount of public resources by 2031.

- **Boomerang / Returning TIF:** As final TIF debts are paid off in a district, the property taxes are redirected back to the respective taxing authorities. The funds returning to the City are referred to as “Boomerang” funds or returning TIF. In the original FSP models, specific assumptions were made about returning TIF in a best-case and worst-case scenario. During the recent reevaluation of the financial sustainability plan of the agency, City Council issued a budget note indicating its intent that going forward it would allocate 25% of the City’s returning TIF to Prosper Portland (Figure 10). For this reason, that assumption is incorporated in the updated financial model.
- **New Market Tax Credits:** The revised financial model does not include revenue from New Market Tax Credit allocation given three failed attempts, the high levels of uncertainty for success and the staff-intensive nature of the application process.
- **Cannabis Tax Fund Revenue:** The updated FSP model includes ongoing Cannabis Tax revenue allocated in the FY 2022-23 budget as an ongoing revenue source. Neither the model nor the agency’s budget currently include the anticipated transfer of Civic Life Cannabis Tax grant funds or associated costs as staff is currently in the process of securing additional clarity on both.

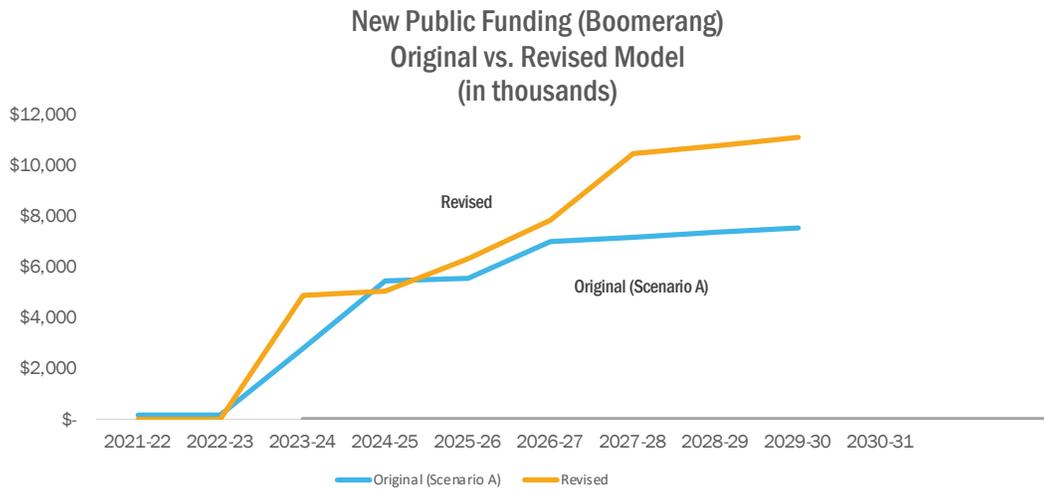


Figure 10

- Community Opportunities and Enhancement Program:** Since the original FSP was adopted, the Community Opportunities and Enhancement Program (COEP) was implemented. This program generates income from a 1% fee on the hard costs for City of Portland construction projects. Estimates from this program were not included in the original model but are now included as a new source of revenue in the revised model.
- New TIF Districts:** The original and revised models both include new TIF Districts as an important component of delivering on community priorities and covering related operating costs. The original model included two prospective districts modeled from an early version of the Cully TIF District. The revised model includes the updated

projections for the Cully TIF District Plan approved by Council in 2022 plus a second prospective district that is approximately the same size implemented later in the model. The updated model reflects the one key difference, which is timing. The original model projected two new districts to begin collecting tax increment revenues in 2020, whereas in the revised model (Figure 11), the first tax increment collections are occurring in FY 2023-24 for Cully and FY 2025-26 for a second prospective district. The four-year delay of the first and six-year delay of the second equate to \$18 million less in operating funds and \$34 million less in capital funds through 2031.

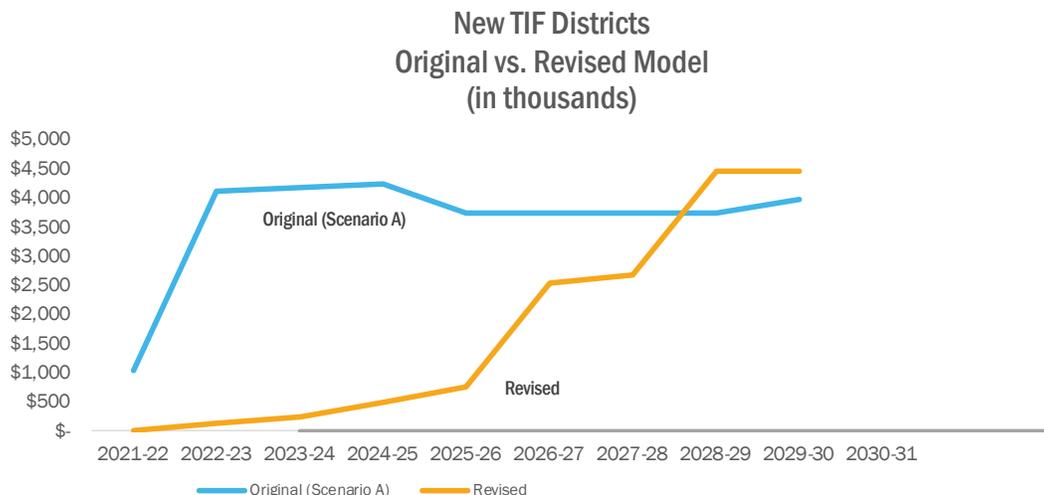


Figure 11

Risks and Next Steps

Like the original FSP, this revised plan combines ongoing public funding and one-time or annual revenues with more performance-based revenue streams, such as lending and real estate operating income, and contemplates the exploration of expanding the agency's resource development capability. This package of funding comes with known and unknown potential risks, ranging from economic or policy changes impacting the City's General Fund or federal funding programs to failure to reach lending or project-based revenue targets (timing, volume, repayment, return rates) or operating income projections due to economic changes impacting the market, like a recession.

To date, the agency has continued to strategically fill vacancies while ensuring capacity needed to deliver on the amended plan and specifically implementing on the anticipated lending volume across the Development and Investment and Economic Development departments. As described above, staff have also strategically contracted for analyses to help identify alternative sources of funds that align directly with the agency's business lines and community priorities – from a grant landscape and tax funding analysis to a third-party review of TIF districts to share with City Council as part of the Boomerang discussion.

To manage these risks and secure resources as outlined in this amended framework and business plan going forward, agency staff has identified key near- and long-term implementation steps, which include:

- **Creating New and Revised Loan Programs and Guidelines.** Building on recent efforts to revise and relaunch Prosper Portland's small business working capital loans, staff will review and revise Prosper Portland commercial property loans and – with more flexible investment funds – identify opportunities for new loan programs that serve priority community needs and equity outcomes, such as property acquisition or mezzanine products.
- **Updating Policies and Procedures.** Staff will revisit agency policies related to acquisition, disposition, and real property management and leasing, particularly with an eye on the potential for longer term property holds outlined in the amended business model. Additionally, other policies such as the budgeting and financial management plans will be evaluated and updated if needed.
- **Placing and Scaling Strategic Investment Fund.** Staff will continue to identify where opportunities exist to scale or increase investment in response to community needs and market gaps citywide, including through revenue sources like program income or increased E-Zone revenues.
- **Pursuing New Revenue Streams.** Staff will continue discussions using a cocreation model with community partners and City Council regarding potential new public revenue streams – from new TIF district exploration to assessing the feasibility of new or reallocated tax revenue streams to larger moves like pursuing CDFI status or new state/federal funding on a more consistent basis. This will include the exploration of a dedicated resource development function to expand the agency's capacity to seek new state, federal, and philanthropic resources which could involve structural changes within the agency.
- **Honing Asset Management Strategies.** Using the Board-approved property plans as a foundation, staff will work with a consultant to create more detailed asset management plans for key operating income properties. These plans will analyze capital investment needs, operating income and re-capitalization potential with an eye towards optimizing real estate operations and cash flows, including potential capital events. In parallel, staff will continue to pursue disposition of remnant properties that are serving largely open space or infrastructure purposes in partnership with partner bureaus like Portland Parks & Recreation and the Portland Bureau of Transportation.
- **Augmenting Financial Management Systems.** To create a system that better allows for periodic monitoring, adjustment, and reporting across a broader set of financial revenue streams, staff will research and identify a more dynamic IT system. The system must also be able to more efficiently update and integrate financial modelling across multiple program areas – from lending to public finance to real estate operations.

Staff anticipates returning to the Prosper Portland Board to present those actions that involve updated guidelines and policies for their consideration in the calendar year 2024.

ATTACHMENT 1

Prosper Portland Financial Sustainability Plan 2.0 Phase 2 Consultant's Report

Prepared by: D.A. Davidson



Prosper Portland Financial Sustainability Plan 2.0 *Phase 2 Consultant's Report*

March 16, 2022

D.A. Davidson (“Davidson” or the “Consultant”) is pleased to provide to Prosper Portland (“Prosper”) the final Phase 2 Report for the project titled Financial Sustainability Plan 2.0: Identifying New Public Resources (the “Project”). The broad Project goal is to “evaluate the range of potential funding options” and “recommend viable paths/sources for additional public funding.” Davidson was engaged by Prosper Portland to identify a scope of work (Phase 1) in October 2021, and to perform an independent review and assessment of funding resource options (Phase 2) beginning in November 2021. This effort builds upon the “Financial Sustainability Plan 1.0” work previously undertaken by Prosper Portland, and supplements the related Financial Sustainability Plan 2.0 work currently in progress by Prosper staff.

This Phase 2 Report (the “Report”) summarizes Davidson’s research and findings.

Scope and Methodology

Goals and Scope

The primary goal of the Project is to assemble an inventory of potentially viable funding resources, and perform an independent qualitative assessment of suitability to support Prosper’s long-term financial sustainability. Funding resources include opportunities previously identified by Prosper, and new potential resource opportunities for review and consideration. The intent of this Report is to identify funding sources that can establish financial stability and growth opportunity for Prosper, while bridging an existing operating revenue gap that is scheduled to increase to an estimated \$15 million to \$20 million by Fiscal Year 2025-26 due to the pending expiration of urban renewal areas and their associated tax increment revenue.

The research and analysis performed for this Report is rooted in our understanding of statutory and City Charter authority, Prosper Portland’s organizational Mission, Vision and Equity Statement, Prosper’s most recent Strategic Plan, and previously completed (and ongoing) Financial Sustainability Plan work.

The following funding resources or related features have been specifically excluded from the scope of this Project:

- *Current City General Fund transfers (including Cannabis Tax revenues).* This Report assumes Prosper will continue to receive combined revenues of approximately \$7.5 million annually (escalated) from the City’s General Fund. These revenues have been applied before calculation of the estimated funding gap referenced above.
- *Debt/borrowing tools.* For purposes of this Report, borrowing tools – including use of tax increment bonds or loan programs offered by the State of Oregon, Federal government, or other agencies – are not considered a funding resource per se, but rather a financing tool that leverages an annual revenue stream

to pay debt service over time. This Report assumes that existing urban renewal districts and use of tax increment financing will continue as currently projected by Prosper.

- *Community benefits and equity-specific benefits.* While these are critical considerations prior to proceeding with pursuit of any funding resource, they are not within Davidson’s scope of practice or expertise. General consideration of community impacts is embedded within the funding resource attribute analysis (as described in “Funding Resource Attributes” below), however we expect that Prosper will more diligently apply expertise in assessing these impacts.
- *Expense reduction strategies.* Reducing and/or carefully managing expenditures is another important tool to financial sustainability and/or addressing a resource gap. This Report assumes that Prosper is already undertaking reasonable expense reduction strategies, to the extent possible without negatively impacting service delivery.
- *Quantification of resource projections.* The analysis in this Report considers *qualitative* review of funding resources and attributes. While there is general consideration of the potential scale of revenue potential, specific quantitative financial projections have not been performed.

Methodology

The basic methodology has been to start from a wide lens view and then focus in to funding opportunities that appear best suited to Prosper’s expertise and organizational objectives. Davidson adhered to the following general steps for the Project and preparation of this Report:

- Scope development (Phase 1).
- Review of Prosper organizational information, financials and other relevant reports and presentations, including conversations with Prosper staff to support understanding of operational characteristics and potential constraints.
- External scan of funding resources utilized by development agencies, including conversations with industry peers regarding emerging ideas.
- Assembly of funding resource and attribute inventories. Note that an apparent substantial challenge to funding availability (for example, infeasible legislative authority) was not considered an excluding factor. If a potential resource immediately appeared to be poorly suited, it remained on the inventory but was assessed accordingly.
- Performance of an independent assessment, and application into a summary matrix.
- Identification of observations and recommendations.
- Report production and delivery.

Funding Resource Opportunities

The brief descriptions below are intended to provide a summarized frame of each potential resource, focusing on the general concept rather than the potentially complex details. Many of these resources have important nuanced details, which the scope of this engagement does not address and therefore may not be comprehensively reflected herein. The primary focus of these descriptions – and the assessment thereof – are the characteristics relevant to its funding element, and may exclude important programmatic or community-related details. However, the assessment matrix (see page 11) does attempt to consider these potential impacts more generally.

This resource inventory builds upon funding opportunities previously identified by Prosper. Davidson has also performed an environmental scan of other public development agencies and funding tools that may be applicable to Prosper. While some of the funding opportunities below are well understood, others are more conceptual and may not have an existing framework to build upon. These more conceptual opportunities should be considered as subject to future due diligence and uncertainty, and are scored in the analysis portion of this Report accordingly. This list also includes funding resources that Prosper already utilizes, and which Davidson believes should be continued and potentially expanded upon. Funding resources that Prosper currently collects are indicated in the list below by an asterisk.

While best efforts have been made to assemble a comprehensive inventory, we acknowledge that additional funding resources may be accessible beyond those identified here, and new funding concepts or resources are likely to develop in the future. We have applied our market intelligence and reasonable opinions, however we have not performed formal legal due diligence; that work, if needed, should be performed by a qualified legal professional.

“Boomerang” City General Fund Revenues

As existing TIF districts reach termination, the portion of property taxes that has been historically used to repay TIF bonds will be returned to overlapping taxing districts, including the City. Current projections anticipate that these revenues will be significant – approximately \$26 million annually beginning in FY2024-25 and increasing above \$40 million annually beginning in FY2029-30. The term “boomerang” refers to the concept returning a portion of those released revenues back to Prosper – in effect, increasing the annual allocation of General Fund resources provided to Prosper by the City. Because Prosper already receives a General Fund allocation from the City via the annual budget process, administration of this resource requires almost zero additional effort on the part of the City or of Prosper.

Enterprise Zone Revenues*

The existing Portland Enterprise Zone (E-Zone) program offers temporary tax exemptions to businesses in exchange for major capital investment and job creation. As the designated E-Zone manager, Prosper collects annual payments directly from program participants in exchange for receipt of the E-Zone tax exemption. Over the past 3 years, the E-Zone program has produced approximately \$1.4 million per year in revenue to Prosper on average, though that amount is projected to wane to under \$500,000 annually by Fiscal Year 2023-24.

TIF & Real Estate Based Investments*

With adoption of the 2018 Financial Sustainability Plan, Prosper has invested TIF resources in real estate and property, or other revenue-generating investment opportunities, guided by TIF district and community identified priorities (ex. Action Plans). In either case, the investment target is to intentionally guide available dollars/assets with an expectation of financial returns (either ongoing or one-time) on balance with public benefit returns. Existing examples include real estate and business loan products; and investments in various income producing assets such as the Inn at the Convention Center, Lents Commons, and the Station Place Parking Garage. This Report assumes that Prosper will continue to receive funding from existing TIF districts, and may continue to use the traditional TIF district tool in the future as appropriate opportunities arise. In addition, based on repayment of historic loan and real estate investments in TIF based projects, Prosper currently has approximately \$65 million in program income available in fund balance that could be deployed more flexibly and with a focus on financial sustainability.

Charges for Service*

Prosper combines its technical expertise and community connections to provide services to other City bureaus for program assistance. Revenue receipts from these activities can be based upon cost reimbursement, charges for specific expertise, or a combination of both. Examples include COEP administration, grant/subsidy program

administration (i.e. Low-income Utility Discount Program), and intergovernmental contracts for business development and equitable development advisory services. While Prosper often collects a fee for these services, it is unclear whether these fees are consistently adequate to fully recover Prosper's costs of delivering the services. An internal policy regarding cost recovery guidelines similar to those used by other City bureaus could help Prosper more clearly identify potential pricing priorities and options.

New Charges for Service

Prosper has subject matter expertise that could be leveraged in a more consistent consultancy role to City bureaus or other regional service providers. Currently, when in a TIF district, Prosper provides these services for City projects without any cost recovery. Additionally, Prosper has strong experience partnering with regional governments including Multnomah County and Metro. In the past, these "no-fee" relationships may have been reasonable, as Prosper's input could support accelerated value increases in urban renewal areas, thus indirectly advancing Prosper's bottom line financial condition. Examples of Prosper areas of expertise that could be leveraged in a fee-for-service relationship could include project management, property management, regional events/activations with community and business partners, strategic commercial tenanting, P3 project structuring/sponsor/facilitator, or industry-specific program development. An internal policy regarding cost recovery guidelines could help Prosper identify potential pricing priorities and options.

Spot TIF Districts

Spot TIF districts are used elsewhere in the U.S. and would be an evolution of the legacy Portland tax increment district concept and the prior/existing Neighborhood Prosperity Network (NPN) concept, but with key differences. These limited geography districts are focused around specific major development projects with significant opportunity for property tax growth at minimum displacement risk to facilitate that development in alignment with City and Prosper priorities. Like traditional tax increment districts, revenues generated via a Spot TIF district could be spent on a pay-as-you-go basis or used to securitize and repay an up-front financing. There is a limited amount of opportunity to utilize this tool due to the limited number of major development projects of sufficient scale to make this tool viable.

Grants*

Prosper currently receives various grants to support specific projects or objectives. Additional grants connected to Prosper's mission and organizational scope may exist and Prosper could pursue grants on a more consistent basis (e.g. Economic Development Administration; Environmental Protection Agency, or other infrastructure related federal grants), assuming appropriate coordination with partner City bureaus. Grant research and application can be staff intensive. However Prosper' prior experience, combined with other experience and support Citywide, could aid in that effort. Current grants are administered via Prosper's Finance & Biz Ops team, but program-specific data and info is gathered by the project manager.

Claim to Existing TLT/VRT

Transient Lodging Taxes (TLT) and Vehicle Rental Taxes (VRT) are collected by Multnomah County and distributed in accordance with an intergovernmental agreement (the Visitor Facilities Intergovernmental Agreement or "VFIGA") between the County, the City of Portland and Metro. Funds collected via the VFIGA are targeted towards "supporting regional efforts to grow and improve Portland as a tourist destination" including livability and supportive community services. All revenues collected by Multnomah County under the VFIGA are currently allocated toward eligible purposes between the County, City and Metro; any increase to or reallocation of VFIGA revenues would require negotiation and amendment to the VFIGA.

"Modified" Micro-TIF Districts

Like the "Spot TIF Districts" described above, these "micro-TIF" districts would be smaller, geographically focused tax increment districts, but with a couple of key conceptual differences from traditional urban renewal areas and

the more recent NPNs. These districts would be “modified” via legislative action to be exempt from revenue sharing with overlapping taxing districts and other potential statutory limitations (though limitations on size, scale and purpose would need to be developed). Like the NPNs, these small districts would assumedly receive an exemption from the housing set-aside, to ensure that adequate resources remain available for the limited development objectives of the district. If creation of this tool were legislatively successful, there would likely remain a limited amount of opportunity to utilize it broadly.

Utility License Fee Increase

Per Chapter 7.14 of Portland City Code, all utilities operating in the City are required to pay an annual fee equal to 5% of gross revenues. This utility license fee (ULF) is imposed upon City service providers of cable, telecommunications, internet providers, energy, water, sewage disposal and the like. ULF revenues are deposited into the General Fund and allocated via the annual City budget process. It is our understanding that, despite being generated by utilities (including City water, wastewater and stormwater systems), that these revenues are not purpose-restricted. In Fiscal Year 2020-21, the City collected approximately \$88 million in total ULF. If the City were to pursue an increase in the ULF, a portion of that incremental increase could be passed along to Prosper Portland for eligible and related purposes.

Dedicated Food/Beverage Tax

Governments nationwide, including some in Oregon, impose taxes or surcharges on purchases of food and beverages (with varying limitations) to support governmental operations, particularly related to expenses related to tourism and livability. Conceptually, a tax on food and beverages could be developed with a dedicated purpose of supporting eligible Prosper operations (among other potential uses). This type of tax would require community support and (assumedly) voter authorization, and development of an administrative system for collection.

Dedicated Sales Tax

Taxes or surcharges imposed on sales of various goods are very common nationwide, though rare in Oregon. Conceptually, a sales tax could be developed with a dedicated purpose of supporting Prosper operations (among other potential uses). In practice, a tax or surcharge could be applied on an expansive Citywide basis or on a more limited specific product or location. At minimum, this type of tax or surcharge would require community support – and would likely require voter authorization if applied on a Citywide basis – and development of an administrative system for collection.

Business Improvement Districts

Business Improvement Districts (BIDs) – or similar concepts – are a fairly common tool used by development agencies to incentivize development of regionally bound areas. Typically, a property owner within a designated BID pays an annual assessment, which includes a fee or service charge that is returned to the BID developer. The City is familiar with a very similar concept in the form of Local Improvement Districts, utilized via the Portland Bureau of Transportation and the utility bureaus to facilitate transportation and utility infrastructure projects. However, City Council (not the Prosper Board) is authorized to form improvement districts, so legislative action may be required in order to accommodate this resource to Prosper.

Business Income Tax

Currently (as of tax year 2021), certain dedicated local taxes are imposed on a subset of businesses (based upon total annual gross revenue thresholds) and on individuals (based upon annual income thresholds). Prosper could pursue an allocation of existing income tax revenues (if aligned with voter authorized purposes) or pursue an additional business income tax. Given the political and administrative infrastructure that accompanies the existing taxes, our assumption is that a new tax – modeled on the existing tax structure – would be the more feasible option. Imposing a new income tax would require voter approval and we note that the existing local income taxes may be subject to expiration or further adjustment, and could be impacted by future ballot measure activity.

Enhanced Service Districts

Enhanced Service Districts (ESDs) are another tool that could be used to support specific development-related activity within a defined area. A similar concept would be a more expansive dedicated-purpose business license fee that builds on the existing Citywide business license fee structure. The City currently has three active ESDs – Central Eastside, Clean & Safe, and Lloyd – where ESD revenues are used to support livability activities including transportation support, development-related activities and enhanced trash and graffiti abatement. In the current City structure, property owners within the ESD pay a license fee to an authorized non-profit that provides the approved services. ESDs are subject to City Code requirements (Chapter 6.06), including approval by City Council and a potential termination date.

Fee-Based Membership/Collaboration Programs

Given Prosper's deep community and industry connections, Prosper occasionally acts as a convener of organizations. Prosper could leverage this expertise to implement fee-based membership programs to provide participants access to certain information, organized activities or collaborative opportunities.

New Market Tax Credits

The New Market Tax Credit (NMTC) program of the US Treasury aims to assist economically distressed communities by providing a Federal tax credit to investors in certain business investments in those communities. As a qualified Community Development Entity (via Portland Community Investment Fund), Prosper could serve as an intermediary to make rate-competitive, flexible loans to qualified investors/projects. NMTC management can be a heavy administrative burden. There are four CDEs actively and successfully operating in Oregon since 2003. Qualification and operation as a Community Development Financial Institution (CDFI) would also allow access to NMTC allocation – as well as additional potential Federal match funding resources and community lending tools – but is likely a much higher bar for implementation and a heavier lift to successfully manage given the number of CDFI organizations currently in operation.

EB-5 Programs

EB-5 is a federal program that matches eligible employers to potential qualified immigrants to the U.S. These individuals in turn, receive employment visas. With approval as a Regional Center, Prosper could serve in a promotion role for EB-5 projects and participations, and receive funding to do so. However, EB-5 programs are meaningfully suited as a development tool rather than a substantial funding resource. It is our understanding that federal statutory authorization for the EB-5 Regional Center program expired in June 2021 and it is not clear that the program will be reinstated in the future.

Expanded Transportation Revenues

Prosper will likely continue to play a role in development of transportation strategies, and could therefore have a vested interest to the extent these revenues have a nexus to the region's economic growth (e.g. freight usage; workforce patterns and/or access to development opportunities). As the Portland region explores future transportation needs, it is possible that future revenue streams could develop in the future, such as tolls, alternative fueling services or congestion pricing. As a facilitator of regional equitable development, However, future transportation infrastructure projects, the development of any associated fee structures, and the allocation of any such fees are all extremely uncertain and would entail navigating complex relationships between the State of Oregon, Multnomah County, Metro, the Portland Bureau of Transportation and other regional participants.

Construction Excise Tax

A construction excise tax (CET) could be imposed upon a to-be-defined subset of development with the intent of off-setting the impacts of structural gentrification and inequity and in a manner that complements rather than competes with the affordable housing CET administered by the Portland Housing Bureau. Proceeds of this tax

could be passed to Prosper Portland to expend on eligible projects that are aligned with Prosper’s organizational mission and skill set. This concept would require significant legislative due diligence and would need to consider overlapping impacts with the current local school CET and the existing CET to support affordable housing.

Social Impact Investment Fund

With additional subject-matter experts and resources, Prosper could act as manager (or partner with a financial services firm) to identify investment opportunities that achieve outcomes aligned with priorities of social impact fund investors. While the ultimate goal would be to achieve equity-enhancing outcomes, resources could be derived from a management fee and/or a share of financial returns with fund investors.

Educational Partnerships

Prosper could seek opportunities to participate in joint educational or research projects that share receive a portion of funding from the educational entity leading the effort (for example Oregon Health Sciences University or Portland State University). However, this funding source is not likely to be directly profit-generating; in other words, the costs of participating in the partnership project could offset any new funding resources.

Regionally Significant Industrial Sites Program

Prosper has previously been delegated by Portland City Council as the formal applicant to the State’s Regionally Significant Industrial Sites (RSIS) program on behalf of the City of Portland. This program provides state income tax reimbursement for eligible industrial site development activities; Prosper could potentially include a portion of Prosper-incurred planning and development costs for RSIS coverage. However, program standards vis-à-vis job creation, site eligibility and expenditure limitations suggest limited local applicability given Portland’s regional economic dynamics.

Developer Fees (SDCs)

System Development Charges (SDCs) are imposed on development activities (typically at the time of permitting) to help pay for the infrastructure needed to support the development. SDCs are currently used by City infrastructure bureaus to fund transportation and utility needs. SDCs can be imposed on a citywide basis, or restricted to a defined “overlay” region. Per ORS Chapter 223, resources collected from an SDC are statutorily required to be spent on water, wastewater, drainage, transportation and/or parks and recreation purposes. As such, Prosper would be very limited in how such revenues could be spent on eligible projects within Prosper’s scope of services.

Special Property Tax Assessments

This tool used by some development agencies outside of Oregon adds a direct, special property tax assessment (levy) onto a property owner’s tax bill to support development-related purposes. Given Oregon’s unique property tax system and Measure 5/50 limitations on total property tax rates in Oregon, this is not likely to be a feasible source of funding for Prosper.

Philanthropic Giving

Prosper could invest administrative resources in development and promotion of an ongoing philanthropic giving program, seeking donations from private entities seeking alignment with Prosper mission and outcomes. This activity would be akin to standard not-for-profit fundraising efforts, and may directly compete with other community not-profits already aligned with Prosper’s mission and objectives.

Funding Resource Attributes

Davidson has worked with Prosper staff to identify a range of general attributes that we believe are important to assessing the viability of each particular funding resource. The brief descriptions below briefly summarize each attribute, and the general characteristics that have been used to determine whether each attribute indicates favorability to Prosper or not. Attributes have been sorted into three general categories:

- **Funding Characteristics** – the general qualities of the funding resource itself.
- **Administrative Characteristics** – the administrative impacts or requirements of the receiving and utilizing the funding resource.
- **Risk Characteristics** – other considerations that Prosper should consider relating to financial, legislative or political risks.

We have subsequently applied our independent judgement to assign a qualitative indicator to each of the attributes in relation to each potential funding source. A green marker indicates the resource appears to trend favorably to Prosper (green). A yellow marker indicates trending away from favorability and/or that some concerns may exist. A red marker will indicate that we believe one or more significant challenges exists. Results of the assessment are included in the section titled “Analysis” below.

Funding Characteristics

Scale/Size of Revenue Potential

This attribute provides a comparison of anticipated/likely resources relative to the estimated \$15 million to \$20 million projected gap in operating funds. Alternately, a funding source could be available on a one-time or intermittent basis, yet be of significant relative size. In general, resources reasonably anticipated above \$10 million annually will be indicated in green, with resources less than \$1 million annually indicated in red.

Stability/Predictability

This attribute considers whether the funding resource would likely provide a consistent and reliable annual revenue stream, or whether it could be subject to variability of receipt – either in size or frequency.

Flexibility and/or Restrictions

Some funding resources will offer Prosper latitude to expend the resources on any legal purposes that Prosper prioritizes. Other resources may have general limitations or very specific restrictions. This attribute considers whether a funding source might be available for fungible purposes or whether limitations exist. Examples of limitations may include legal restrictions, program-specific requirements or geographical applicability.

Certainty of Resource Development

Resources may have limitations or conditions that prevent the funding from becoming available to Prosper. Examples may include necessary legislative action, legal uncertainty or significant political risks. This attribute also considers whether there may be significant actions or costs that need to be accommodated in order to receive a particular funding resource. Not surprisingly, most of the resources on this list not currently utilized by Prosper receive a red marker as being subject to significant uncertainty.

Competitive Advantage and/or Existing Competing Provider

A potential funding resource may have limited competition for its receipt. If true, Prosper may further have a competitive advantage to accessing or efficiently utilizing the resource. Conversely, other resources may have other organizations that already receive or compete for them. For this attribute, information may be unavailable, incomplete or inapplicable as noted with an indicator of “N/A”.

Administrative Characteristics

Nexus to Organizational Mission

Prosper's stated mission is "to create economic growth and opportunity for Portland" and key elements of Prosper's vision include job creation and economic prosperity for all Portland communities. This attribute considers whether a potential funding resource opportunity generally aligns with Prosper's general mission and vision. Alternately, a resource may receive a red marker if, in our assessment, that resource may create a potential conflict with this mission and vision.

Existing Model and/or Administrative Infrastructure

This attribute considers whether a funding resource can be acquired and managed using the existing staff skillset, organizational structure, and/or administrative infrastructure. Similarly, it considers whether ongoing management and administration could be potentially similar to something that already exists in Prosper's (or the City's) current funding portfolio or administrative processes.

Staff Intensive – Set-up

If receiving funds (including applying for, requesting, or negotiation) is expected to be reasonably able to be accommodated at existing staffing levels, this attribute will be scored using a green marker. This attribute would be scored with a red marker if there are likely unique or significant hurdles that would need to be cleared – such as financial infrastructure, administrative processes, legal issues or community engagement expectations.

Staff Intensive – Ongoing Administration

This attribute considers whether existing staffing levels can easily accommodate the anticipated processes for ongoing administration of funds (i.e. for accounting, compliance, expenditure distribution, etc.), including whether there are any unique legal or budgetary hurdles that staff will need to clear.

Aligned to Organizational Expertise

This attribute considers the potential nexus with existing Prosper Portland knowledge, skills and abilities including entrepreneurship and small business development; traded sector industry; community economic development; commercial land acquisition/disposition/development; real estate and business lending; grant program administration; and commercial property management.

Risk Characteristics

Requires Taking Financial Risk

This attribute looks at whether the acquisition of new funding resources requires investment of Prosper dollars that put those dollars at potential risk of material loss. For this attribute a green marker indicates there is no direct risk; a red marker indicates potentially significant financial risk.

Political/Legislative Feasibility

This attribute considers whether Prosper is legally eligible under existing Oregon law and City Charter/policy to receive the funding, and to expend it on eligible purposes in conformance with any funding restrictions. A green marker indicates that the funding resources is clearly feasible, with no or only minimal anticipated adjustments required. A red marker indicates an expected need to actively pursue legislative action to create legal feasibility, or significant political negotiation. Note this is D.A. Davidson's professional suggestion only, and does not reflect a legal recommendation or opinion.

Political/Legislative Risk

Pursuit, collection or use of some funding resources may create or enhance political risks that might negatively

impact achievement of Prosper’s mission more broadly. Similarly, if legislative activity is needed, we considered whether that action might negatively impact other Prosper objectives. This attribute considers whether there may be significant local or regional political aversion to a proposed funding source or the collection/use thereof by Prosper, if reasonably known.

Impact on Other City/Community Resources

This attribute looks at whether other local governments (including the City) or community organizations currently utilize the funding resource, and whether pursuit/collection/use of this funding would negatively impact availability of that resource to current funding recipients. A green marker indicates that there would be a positive (or neutral) impact on other resources; in other words, the funding would not take away from a competing use of that funding. A red marker indicates that Prosper’s receipt of the funding resource would directly take that funding away from another current City or community use.

Analysis

Each of the potential funding resource opportunities described above have been scored with green, yellow or red markers against each attribute, as indicated on the following page. Each indicator is an assessment of that specific resource’s suitability to Prosper in relation to an individual attribute. Any individual indicator does not suggest a conclusion based upon that mark alone, but should be considered in the context of all other attributes and in relation to other potential funding sources. For example, a single red marker does not indicate a conclusion of unsuitability; however, a preponderance of red and yellow markers would suggest poor suitability. A high amount of green markers would suggest high suitability and a funding resource that Prosper should prioritize. Similarly, one or two green indicators may exist for a specific attribute, but the overall attributes may suggest cautionary assessment or sub-optimal suitability.

Based upon this analysis, the resources have then been grouped into four general categories, as described further in the section titled “Observations and Recommendations.”

- Funding to Prioritize and/or Pursue
- Funding Resources Worth Further Exploration
- Low Benefit and/or High Risk Funding Sources
- Impractical Funding Resources

FUNDING RESOURCE ATTRIBUTES

FUNDING RESOURCE OPPORTUNITIES

	Funding Characteristics	Scale/Size of Revenue Potential	Stability/Predictability	Flexibility and/or Restrictions	Certainty of Resource Development	Competitive Advantage / Competing Provider	Administrative Characteristics	Nexus to Organizational Mission	Existing Model/Administrative Infrastructure	Staff Intensive - Set-up	Staff Intensive - Ongoing Administration	Aligned to Organizational Expertise	Risk Characteristics	Requires Taking Financial Risk	Political/Legislative Feasibility	Political/Legislative Risk	Impact on Other City/Community Resources
<u>Prioritize and/or Pursue</u>																	
Boomerang City General Fund Revenues	●	●	●	●	N/A	●	●	●	●	●	●	●	●	●	●	●	●
Enterprise Zone Revenues*	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
TIF & Real Estate Based Investments*	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Charges for Service*	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
New Charges for Service	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Spot TIF Districts	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Grants*	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
<u>Worth Further Exploration</u>																	
Claim to TLT/VRT	●	●	●	●	N/A	●	●	●	●	●	●	●	●	●	●	●	●
"Modified" Micro-TIF Districts	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Utility License Fee Increase	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Dedicated Food/Beverage Tax	●	●	●	●	N/A	●	●	●	●	●	●	●	●	●	●	●	●
Dedicated Sales Tax	●	●	●	●	N/A	●	●	●	●	●	●	●	●	●	●	●	●
Business Income Tax	●	●	●	●	N/A	●	●	●	●	●	●	●	●	●	●	●	●
<u>Low Benefit and/or High Risk</u>																	
Business Improvement Districts	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Enhanced Service Districts	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Fee-Based Membership/Collaboration	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
New Market Tax Credits	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
EB-5 Programs	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Expanded Transportation Revenues	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Construction Excise Tax	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Social Impact Investment Fund	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
<u>Impractical</u>																	
Educational Partnerships	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Regionally Significant Industrial Sites	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Developer Fees	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Special Property Tax Assessments	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Philanthropic Giving	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

* Current Prosper funding resources

Observations and Recommendations

The following observations reflect a synthesized assessment of each attribute in relation to the others. Categories are provided for ease of understanding, but should not be considered exclusively linear – in other words, a small change to a funding detail could functionally alter the observable benefits or risks and suggest placement in a more suitable or less favorable category.

Funding to Prioritize and/or Pursue

All of the funding options in this category are resources that Prosper currently prioritizes and/or that could be fairly easily expanded or implemented. Working with the City to allocate a significant portion of Boomerang Revenues from the General Fund to Prosper on an annual ongoing basis is the most favorable option to ensure Prosper can reliably achieve its mission and organizational objectives for the foreseeable future. Without this funding, maintaining financial viability will be a considerable challenge and Prosper's continued operation will be at significant risk.

Prosper should continue to maximize remaining TIF and prioritize use of existing program resources in investment opportunities that provide future financial returns. Efforts such as Enterprise Zones and current charges for services should be continued. Charges for services is an area that Prosper could potentially expand upon to ensure fair value is received for the expert services provided – an effort that could be aided by development of a formal cost recovery policy that sets cost expectations, targets, limits and standards. Additionally, Prosper may choose to expand research of and application for grant funding; however expanding this effort may require an increase in staffing to accommodate the additional work. Lastly, development of Spot TIF Districts has favorable potential to provide a low-risk funding resource that is closely aligned with Prosper's mission and expertise.

Funding Resources Worth Further Exploration

This category identifies a handful of funding opportunities that have reasonably strong stability and/or scale, but that pose significant political/legislative questions or challenges that would need to be addressed. Because of these risks, there is viable justification for choosing to not pursue any or all of these options further. However, development of one or more of these resources could offer Prosper with significant financial stability and flexibility, and potentially reduce dependence on the City's General Fund or other resources. It will be incumbent upon Prosper Portland to determine whether the funding need and potential for success outweigh the risks and effort to develop these resources.

Low Benefit and/or High Risk Funding Sources

Funding resources in this category are generally summarized as having significant uncertainty, combined with limited financial potential. This category includes sources that may superficially appear to be well-suited, but functionally may be less so due to complicating factors. Two examples of this are New Market tax Credits and an EB-5 program. While the nexus to Prosper's organizational mission is strong, and implementation could be completed with relative ease, these programs both have uncertain stability and applicability, could be staff intensive, and currently have successful regional providers with whom Prosper would be competing for allocation of limited resources.

A somewhat unique potential resource in this category is development of a Social Impact Investment Fund. While development of such a resource would entail assuming financial risk and would require a significant effort by Prosper – including likely partnership with a financial services provider – this resource could have potential for considerable revenue generation without squeezing other City or regional local government revenues. While the challenges are substantial, Prosper may want to continue to monitor investment fund opportunities and review this potential opportunity after long-term financial sustainability has been comfortably achieved.

Impractical Funding Resources

This final category of funding resource includes the opportunities that appear to be impractical due to a combination of very high uncertainty, high risk, a heavy administrative burden, high competition for limited resources and/or potential misalignment with Prosper's mission. It is possible that flavors of these resources could develop on a limited or opportunistic basis – for example, educational partnerships or philanthropic giving opportunities that arise organically during the standard course of Prosper's business. These resources are assessed to be among the lowest priorities when considering new funding opportunities.

Conclusion

While not a direct funding source in and of itself, Prosper's efforts that increase business development, property values or wealth generation for Portlanders has the effect of increasing revenues to the City and to other government agencies in the region. Continuing those efforts will have a beneficial impact on the total pool of funding available to local government agencies region-wide, including Prosper. In order to achieve those shared benefits, additional funding resources will need to be identified and developed. However, there is no magic button that will ensure Prosper's long-term financial viability without compromise. Returning benefit to Prosper via Boomerang Revenues from the General Fund would have a stabilizing long-term impact, especially when combined with other existing and new potential resources, and would allow Prosper to continue to cultivate additional funding opportunities that could supplement this General Fund resource relationship.

In summary, our **primary takeaways** from this Project are as follows:

1. Prosper should continue to prioritize current funding sources, including General Fund contributions, investment of TIF resources, enterprise zone administration, charges for services and grant funding. Our analysis indicates that Prosper has successfully identified the majority of reasonably available funding sources. Resources that are sometimes used by other development agencies do not appear to be an optimal fit for Prosper given current legislative restrictions, local competition for those scarce resources and/or highly specialized administrative requirements.
2. Opportunities exist to generate new funding to supplement the current Prosper funding mix, including more consistent application of charges for service and creation of Spot Districts, among others that may be more challenging to implement.
3. Securing a reasonable allocation of Boomerang General Fund Revenues will ensure that Prosper remains on a sustainable financial path, and will provide Prosper with an opportunity to further develop supplemental funding.
4. Funding opportunities worth further exploration do exist, but are likely to take time to assess, develop and implement. Prosper should weigh the legislative, political and administrative barriers associated with these potential revenue resources against the potential quantifiable benefits those resources could provide.

The goal of this research, analysis and Report was to identify priority resources that can help ensure a financially sustainable future for Prosper Portland. We acknowledge and expect that Prosper staff will apply due consideration to how collection of any of these recommended funding sources might impact distinct categories of Portlanders across various income levels, geographic location and socioeconomic status.

As noted in prior agency and revenue planning efforts, no single funding resource is likely to fill the anticipated gap and support long-term resource stability and opportunity for growth. In addition to maintaining funding strategies currently employed by Prosper (including existing use of tax increment financing), it will take a mix of reasonably reliable revenue streams to support future financial sustainability for Prosper over the long term. We anticipate that Prosper Portland will benefit from remaining nimble to adapt to changing political dynamics,

economic realities and evolving revenue sources in the future. This nimble financial strategy should include maintaining the ability to reprioritize the funding mix and administrative capacity to focus on the highest value sources at any given time. Further, it will be important to commit to ongoing environmental scans for new revenue opportunities.

We thank Prosper Portland staff for their assistance with essential due diligence and development of this Report. We look forward to continuing to provide support, upon request, as Prosper evaluates the information presented herein.

Respectfully submitted,

D.A. DAVIDSON & CO.



Jonas Biery
Vice President



Matt Donahue
Managing Director

ATTACHMENT 2

Prosper Portland Revenue Evaluation

Prepared by: ECONorthwest

Prosper Portland Revenue Evaluation

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Prepared for: Prosper Portland

Final Report

ECONorthwest

ECONOMICS • FINANCE • PLANNING

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1. Executive Summary

Prosper Portland is seeking options for a dedicated stream of City of Portland revenue to provide stable funding and promote Prosper’s mission “to create economic growth and opportunity” for the City.¹ This stream would fully or partially replace expiring TIF revenues of about \$17 million per year. ECONorthwest evaluated five revenue options for considerations related to adequacy (primarily solving for the ability to generate roughly \$17 million without an inordinate rate increase), stability, equity, implementation, neutrality, and nexus to Prosper’s mission. Exhibit 1 below shows the key used to summarize this evaluation (see Exhibit 2).

Exhibit 1. Revenue Evaluation Key

Source: ECONorthwest

KEY	Adequacy	Stability	Equity	Implementation	Neutrality	Nexus
HIGH RATING <i>Better</i>	Large amount of revenue generated with relatively small rate change 	Stable: Steady revenues with trend of annual growth 	Likely improve equity; relatively easy to implement equitably 	Easy to implement (progress underway), resources, info, and public buy-in feasible 	Positive impacts on behavior, or neutral 	Closely aligned with Prosper Portland’s mission
MEDIUM RATING <i>Mixed/Neutral</i>	Uncertain due to pandemic impacts or highly dependent on structure 	Moderately unstable: somewhat volatile or projected to decline 	Potential for equity concerns but City can mitigate inequitable outcome 	Requires effort to implement but City has needed info or resources 	Potential to impact behavior, but City can take steps to alleviate concerns 	Does not have a strong nexus with Prosper Portland’s mission
LOWER RATING <i>Worse</i>	Large rate increase necessary to generate revenues 	Highly unstable: dependent on economic conditions or social distancing 	Significant concerns result in less equity than baseline; concerns difficult to overcome 	Requires significant effort, analysis, or cost to implement & possibly a public campaign 	Likely to lead to unwanted behavior changes 	Conflicts with Prosper Portland’s mission

The revenue options include a combination of new revenue sources and increases to existing taxes or fees:

- City Business License Tax (BLT) (*increase to existing tax*)
- Utility License Fee (ULF) (*increase to existing fee*)
- Dedicated food and beverage tax (F&B) (*new tax*)
- Vehicle rental tax (VRT) (*new tax*)
- Transient Lodging Tax (TLT) (*increase to existing tax*)

Below is a snapshot of ratings for these options, followed by summarized findings. Options were not rated overall given the various competing considerations.

¹ Prosper Portland website, accessed August 19, 2022. <https://prosperportland.us/about-us/>

Exhibit 2. Revenue Evaluation Results

Source: ECONorthwest

	Adequacy 	Stability 	Equity 	Implementation 	Neutrality 	Nexus 
City Business License Tax						
Utility License Fee						
Food and Beverage Tax						
Vehicle Rental Tax						
Transient Lodging Tax						

Business license tax (current City rate 2.6%)	<ul style="list-style-type: none"> + A 0.25-percent surtax levied on business income and dedicated to Prosper could yield \$17 million annually. - BLT revenues fluctuate with economic conditions, meaning this source of funding may not be stable. A business surtax may conflict with Prosper’s goal of job creation, especially since the City has imposed other business surtaxes in recent years.
Utility license fee (current City rate 5%)	<ul style="list-style-type: none"> + A 1-percent increase in ULF rate would yield \$17 million a year. Revenues are stable and show steady growth. - Because utilities are a necessary expense and residential fees are paid directly by households, there could be disproportionate impacts to lower-income residents. Prosper could consider working with the City to expand fee-relief opportunities.
Transient lodging tax (current City rate 6%; current combined rate of 16%)	<ul style="list-style-type: none"> - A 1-percent transient lodging tax would yield around \$2 million per year. - TLT revenue fluctuates with economic conditions, declined dramatically during the pandemic, and has not yet recovered to pre-pandemic levels. + Because the TLT primarily targets tourists and visitors, it aligns with Prosper’s goals to promote the City as a destination while protecting residents from direct impacts of the tax increase.

<p>Motor vehicle rental tax (current total County rate of 17 percent)</p>	<p>+ A 3-percent City rate could yield about \$4 million a year, assuming that 80 percent of Multnomah County car rentals occur in Portland and minimal shifting of rental origination out of the City.</p> <p>+ To the extent that the MVRT primarily affects tourists and visitors, this tax could align with Prosper’s goals to promote the City as a destination while shielding residents from the tax increase.</p> <ul style="list-style-type: none">- MVRT revenues fluctuate with economic conditions, declining dramatically during the pandemic, and future growth may be dampened by the continued growth of ride-sharing.- Some vehicle rental transactions could move outside of the City to avoid the higher tax rate.
<p>Food and beverage tax (no current City tax)</p>	<p>+ A 1-percent F&B tax could yield \$17 million, based on estimates derived from the City of Ashland’s prepared food and beverage tax revenues per capita.</p> <ul style="list-style-type: none">- Revenues are uncertain and likely to be volatile in the near-term. Restaurant sales have not recovered to pre-pandemic levels, and the current economic environment (tight labor market, strong inflation) may further slow recovery.- This tax could be burdensome for low-income populations; research has shown SNAP participants are less likely to dine out in areas with higher taxes on prepared food.- This tax may cause restaurants to close or relocate out of the City of Portland.

2. Introduction

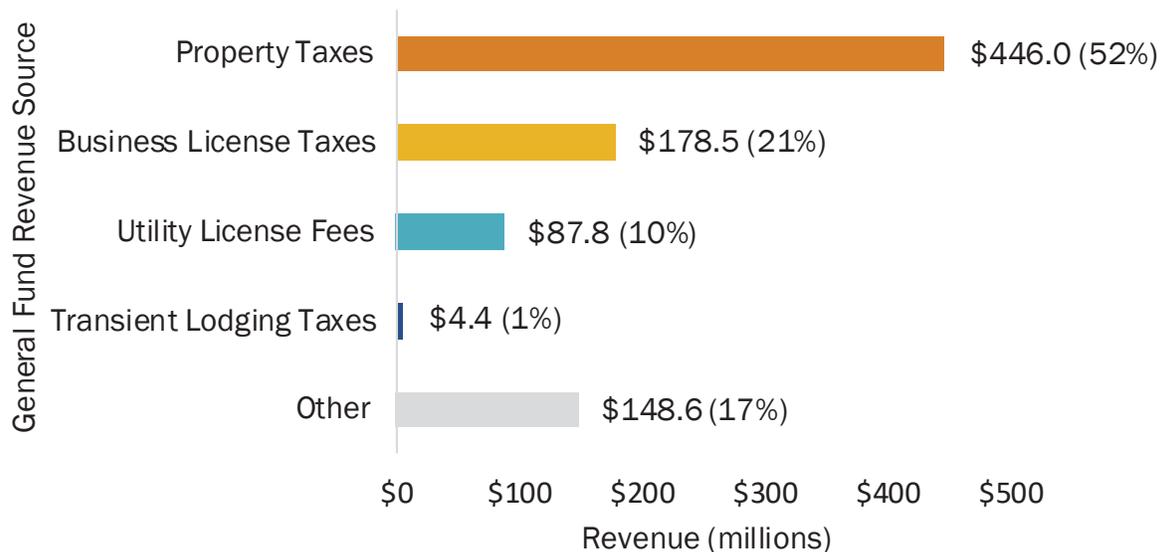
Prosper Portland is currently exploring options for a dedicated source of City revenues to replace expiring Tax Increment Financing (TIF) revenues. Prosper engaged ECONorthwest to evaluate several options currently under consideration. These options include a combination of new revenue sources and increases to existing taxes or fees:

- City Business License Tax (BLT) (*increase to existing tax*)
- Utility License Fee (ULF) (*increase to existing fee*)
- Dedicated food and beverage tax (F&B) (*new tax*)
- Vehicle rental tax (VRT) (*new tax*)
- Transient Lodging Tax (TLT) (*increase to existing tax*)

The three existing taxes range from about one percent (TLT) to 21 percent (BLT) of the City’s General Fund (see Exhibit 1). Increasing or dedicating one of these would therefore have very different proportionate effects on revenue collections and distributions across the three taxes.

Exhibit 3. General Fund Revenue Breakdown

Source: City of Portland



Prosper seeks to understand the likely magnitude of additional revenue that would be derived from each source and has additionally asked for a summary of the extent to which other, similar jurisdictions rely on these taxes and fees, and important characteristics of each source. This analysis evaluates each potential source along dimensions of adequacy (primarily solving for ability to generate roughly \$17 million generated by the expiring TIF without an inordinate rate increase); stability; ease of implementation and administration; equity (vertical, horizontal, and other definitions of fairness); and use of proceeds (generally evaluating for nexus with Prosper Portland’s mission). The revenue evaluation key is shown below in Exhibit 4.

Exhibit 4. Revenue Evaluation Key

Source: ECONorthwest

	Adequacy	Stability	Equity	Implementation	Neutrality	Nexus
HIGH RATING <i>Better</i>	Large amount of revenue generated with relatively small rate change 	Stable: Steady revenues with trend of annual growth 	Likely improve equity; relatively easy to implement equitably 	Easy to implement (progress underway), resources, info, and public buy-in feasible 	Positive impacts on behavior, or neutral 	Closely aligned with Prosper Portland's mission
MEDIUM RATING <i>Mixed/Neutral</i>	Uncertain due to pandemic impacts or highly dependent on structure 	Moderately unstable: somewhat volatile or projected to decline 	Potential for equity concerns but City can mitigate inequitable outcome 	Requires effort to implement but City has needed info or resources 	Potential to impact behavior, but City can take steps to alleviate concerns 	Does not have a strong nexus with Prosper Portland's mission
LOWER RATING <i>Worse</i>	Large rate increase necessary to generate revenues 	Highly unstable: dependent on economic conditions or social distancing 	Significant concerns result in less equity than baseline; concerns difficult to overcome 	Requires significant effort, analysis, or cost to implement & possibly a public campaign 	Likely to lead to unwanted behavior changes 	Conflicts with Prosper Portland's mission

3. Evaluation of Revenue Options

City Business License Tax

The Portland Business License Tax is a 2.6-percent tax on net income earned within the City of Portland, with a minimum annual tax of \$100.² Exemptions are provided for businesses grossing less than \$50,000 per year and various other reasons.³ Deductions are allowed for owner's compensation up to \$125,000.⁴ Certain businesses are also subject to various surcharges, notably businesses that have at least \$500,000 in Portland gross income and \$1 billion in total gross income, which are subject to the clean energy surcharge of 1 percent (implemented for tax years beginning on or after January 1, 2019), and publicly traded companies subject to the US Securities and Exchange Commission pay ratio reporting requirements, which pay a surtax if the CEO-to-median-worker compensation ratio is greater than 100:1. If this ratio is greater than 100:1 but less than 250:1, the surtax is 10 percent. If this ratio is greater than or equal to 250:1, this surtax is 25 percent (implemented for tax years beginning on or after January 1, 2017).⁵

² City of Portland. <https://www.portlandoregon.gov/revenue/article/395552>

³ Various other exemptions apply, such as for businesses who are regulated solely by the State Insurance Board, agricultural businesses, temporary display booths, and real estate brokers. "Business Tax Filing and Payment Information" *Portland.gov*, www.portland.gov/revenue/business-tax.

⁴ Portland City Code 7.02.600 Section A. Sole proprietorships, partnerships, and corporations are also authorized to take a deduction of up to 75 percent of income, not to exceed \$125,000 (Sections B through D.)

⁵ "Business Tax Filing and Payment Information." *Portland.gov*, www.portland.gov/revenue/business-tax#toc-overview-of-the-business-taxes. Accessed 22 July 2022.

Current Revenue

Business License Tax revenues have more than doubled over the last 10 years, from \$72.9 million in 2012 to \$178.5 million in 2021. (See Exhibit 1.) Over this period, growth in revenues has averaged fourteen percent per year but covered a period that includes a rate increase from 2.2 percent to 2.6 percent for tax years beginning on or after January 1, 2018.⁶ Business license taxes comprised 21 percent of the General Fund revenues in Fiscal Year (FY) 2020-21.

Exhibit 5. Business License Tax Net Revenue, FY 2012-2021

Source: City of Portland. Note that the business license tax rate was increased from 2.2 percent to 2.6 percent for tax years beginning on or after January 1, 2018, which would affect taxpayers at different times between 2018 and 2019.



Revenues from business license taxes are deposited into the General Fund, with few restrictions on how revenues may be allocated.⁷ ECONorthwest did not identify permanent earmarks of business license taxes within the General Fund. (See Exhibit 6 for the FY 2020 allocation of \$172

⁶ “Annual Financial Reports | the City of Portland, Oregon” www.portlandoregon.gov, www.portlandoregon.gov/omf/26053. Accessed 29 June 2022.

⁷ Oregon Revised Statute does not appear to limit rates or otherwise restrict local business license taxes. “Business license tax” is defined as “any fee paid by a person to a city or county for any form of license that is required by the city or county in order to conduct business in that city or county” in ORS 701.015 (6)(a). There are no other specific mentions of business license taxes in ORS 314 (net income tax), ORS 305 (administration of tax laws), ORS 221 (organization and government of cities).

“An Introduction to City Finances | Learn about the City’s budget Process | the City of Portland, Oregon” www.portlandoregon.gov, www.portlandoregon.gov/cbo/article/18178. Accessed 29 June 2022.

million).⁸ In 2021, Prosper Portland received a one-time share of 0.94 percent of revenues, which yielded an estimated \$1.6 million in funding.

Exhibit 6. Allocation of City of Portland Business License Revenue, FY 2020 Adopted Budget

Use	Percent of Funding	\$ Millions
Portland Police Bureau	31 percent	\$53.3
Portland Fire & Rescue	18 percent	\$31.0
Portland Parks & Recreation	13 percent	\$22.4
Office of Management & Finance	8 percent	\$13.3
Portland Housing Bureau	5 percent	\$8.7
Transfers to Other Funds	4 percent	\$6.7
Contingency	3 percent	\$4.9
Emergency Communication Fund	2 percent	\$3.8
Transportation Operating Fund	2 percent	\$3.3
Prosper Portland	1 percent	\$1.6
All Other Uses	13 percent	\$23.1

Business License Tax Scenarios

Prosper Portland could pursue an ongoing allocation of existing business license tax revenues or an additional business license tax (“surcharge”). Below are three hypothetical, scalable scenarios for consideration. Scenarios are scaled based on 2020 and 2021 revenues.

Exhibit 7. Business License Tax Scenarios

	2020 Revenues (\$ millions)	2021 Revenues (\$ millions)
Baseline: current revenues at 2.6 percent Rate	\$172.0	\$178.5
Scenario 1: Permanent allocation of existing revenues (rate of 0.026 percent, which is an allocation of ~1 percent of revenues)	\$1.7	\$1.8
Scenario 2: Surcharge of 0.25 percent on all businesses	\$16.5	\$17.2
Scenario 3: Targeted surcharge	<i>depends on rate and base</i>	

- Scenario 1 is a **permanent allocation of existing revenues**. (A 1-percent allocation is shown above, for context. In 2021, Prosper Portland received a 0.94-percent allocation of the Business License Tax, or roughly \$1.7 million in 2020.) Legal analysis could determine whether a permanent earmark of existing revenue would require voter approval or could occur through a revision to City Code. This scenario is generally not

⁸ “About the Revenue Division” *Portland.gov*, www.portland.gov/revenue/about. Accessed 29 June 2022.

recommended due to the lack of precedent and the fact that it would compete with other uses.

- Scenario 2 is a **surcharge levied on net business income of all businesses** subject to regular business license taxes. A 0.25-percent surcharge would have yielded \$16.5 - \$17.2 million in 2020 and 2021. This scenario likely faces the largest hurdle to implement due to the requirement for a ballot measure and the lack of precedent (there are currently no across-the-board surcharges).
- Scenario 3 is a **targeted surcharge levied on the business income of a subset of businesses**. This surcharge could be applied to particular sectors or stratified based on gross income, payroll, FTE count, or another metric. This approach would be similar in application to the clean energy surcharge and the payroll ratio surcharge, though more analysis is needed to identify the businesses to target to ensure that it is equitable and aligns with Prosper Portland’s goals and mission. However, the targeted nature could become an advantage, as it could allow Prosper to specify what businesses would be affected (and which would not be) and allow for further analysis to ensure the surcharge is equitable.

Findings from our analysis are below.

<p>Adequacy. A 0.25-percent surcharge would yield adequate TIF replacement revenue of roughly \$17 million annually.</p> 	<p>Scenario 2 above (a 0.25-percent surcharge levied on all businesses, equivalent to an increase in the BLT of approximately 10 percent) has the potential to raise sufficient revenue to replace Prosper’s TIF revenues. Scenario 1 (allocation of existing revenue) would not raise substantial revenue and scaling the allocation up would increasingly crowd out other uses of existing BLT revenue. Scenario 3 (targeted surcharge) could raise substantial revenue depending on the structure and rate.</p>
<p>Stability. Business income tax revenues are subject to significant volatility due to their correlation with economic conditions, though they have grown rapidly on average over the past decade.</p> 	<p>Business license fee revenues have been steadily increasing over the past 5 years, from \$117.9 million in 2017 to \$178.5 million in 2021, a \$60.6 million (or a 50 percent) increase in revenue (rates increased almost 20 percent during this period). Revenues have grown an average of 7.7 percent annually from 1990 through 2021 but are highly sensitive to changes in economic conditions.⁹</p> <p>Exhibit 8 illustrates the volatility of this revenue source, specifically the periods of 2001-2003 (when revenues fell by 12</p>

⁹ The standard deviation is 10.5 percent, meaning most observations fell within -2.8 percent and 18.2 percent annual growth.

	<p>percent in 2002 and 14 percent in 2003) and 2008 through 2010 (when revenues fell by 10 percent and 13 percent in 2009 and 2010 respectively), corresponding to recessions during the same periods.</p>
<p>Ease of Implementation. A new tax will require voter approval and likely substantial communication effort.</p> 	<p>Portland has previously utilized business license tax surcharges, but ECONorthwest has not found any example of a permanent earmark of existing business license tax revenues (or of any General Fund revenues). A permanent earmark would likely not require voter approval, even if the revenue were to be diverted to a new fund, although legal analysis or engagement with the City attorney is advised.</p> <p>A surtax would require voter approval. Surcharges were imposed from 2002 through 2005 with proceeds dedicated to supplementing state K-12 funding for districts within the City of Portland.¹⁰ The Clean Energy Surcharge required a lengthy community building and grass-roots process.¹¹ Both an across-the-board surcharge and a targeted surcharge will likely require a substantial communication effort both to get a surcharge on the ballot and then approved by voters. Further analysis is needed to consider which businesses would be subject to a Prosper-specific surcharge.</p>
<p>Equity. Further analysis is needed to identify impacts to particular types of businesses.</p> 	<p>Scenario 1 may have equity impacts as it would squeeze resources currently utilized by other programs and departments, particularly if scaled up to cover a greater share of Prosper’s current budget.</p> <p>Scenario 2, an across-the-board surcharge, is horizontally fair in the sense that it applies to all businesses (except for those exempted from the current tax). Analysis of business income, business tax revenue, number of licenses, and number of employees--by sector, over time--would be the best way to</p>

¹⁰ “Chapter 7.02 Business License Law” *Portland.gov*, www.portland.gov/code/7/02. Accessed 29 June 2022.

¹¹ The measure passed on November 6, 2018, under Ballot Measure 26-201. According to an interview Khanh Pham, a founding leader and spokesperson for the Portland Clean Energy Fund (PCEF), PCEF originated through a coalition of six organizations, including the Coalition of Communities of Color (CCC), APANO, NAYA, Verde, 350 PDX, and the NAACP Portland Chapter. With their support, they ran a grassroots campaign to build a strong majority of support for PCEF, building connections and creating a movement with a bunch of different sectors: labor, small businesses, environmental organizations, and BIPOC lead organizations. After establishing a broad base of support, they got the surcharge on the ballot, and it was approved through a voter majority. (Juarez, Zully, and Khanh Pham. “Portland Clean Energy Fund: From Campaign to Implementation an Interview with Khanh Pham - Just Solutions Collective.” *Www.justsolutionscollective.org*, www.justsolutionscollective.org/blog-posts/portland-clean-energy-fund-from-campaign-to-implementation-an-interview-with-khanh-pham. Accessed 29 June 2022.)

	<p>determine historical impacts of previous surcharges. Prosper Portland could also consider working with City staff to identify temporary exemptions for certain sectors struggling with current economic conditions or permanent exemptions for those that have less of a nexus to Prosper Portland’s mission.</p> <p>Scenario 3, a targeted surcharge, could potentially be vertically equitable if it were applied to businesses with a presumed greater ability to pay, such as the clean energy surcharge imposed on large retailers.¹² On the other hand, this and similar structures may have undesirable equity consequences, such as an additional surtax on large retailers, which could be shifted through price increases to low-income residents, who tend to be disproportionately Black or Latinx,¹³ or a surcharge on employers based on FTE count, which may impact payroll decisions.¹⁴</p>
<p>Neutrality. Further analysis is needed to identify any impacts this tax would have on different types of businesses.</p> 	<p>The prevailing tax environment can affect business decisions about location, expansion, and hiring. ECONorthwest was not able to identify studies of the impacts of previous surcharges in Portland.¹⁵ Impacts could be measured in the number of new license applications, the number of closures, number of FTEs, and business income, though it would require substantial analysis to disentangle the effects of rate increases from underlying economic conditions. Some businesses have argued that the clean energy surcharge increases the cost of construction projects for private and public entities during a time of high inflation.¹⁶</p>

¹² “Clean Energy Surcharge.” *Portland.gov*, www.portland.gov/revenue/ces.

¹³ According to the 5-year ACS data available from the census, in 2020 Latinx residents in Portland had a median income of \$54,529, Black residents had a median income of \$36,101, while the median income for Portland overall was \$73,159.

¹⁴ “Are State and Local Tax Systems Colorblind?” *Tax Policy Center*, 10 Mar. 2021, www.taxpolicycenter.org/taxvox/are-state-and-local-tax-systems-colorblind.

¹⁵ These are the 1 percent tax in 2002-2005, the 0.14 percent surtax in 2006, the 0.07 percent surtax in 2007, the payroll ratio surtax in 2017, and the 1 percent Clean Energy Surcharge in 2021.

¹⁶ Everton Bailey Jr | The. “Some Businesses Still Bristling at Having to Pay Portland’s Clean Energy Tax.” *Oregonlive*, 11 Oct. 2019, www.oregonlive.com/portland/2019/10/some-businesses-still-bristling-at-having-to-pay-portlands-clean-energy-tax.html. Accessed 29 June 2022.

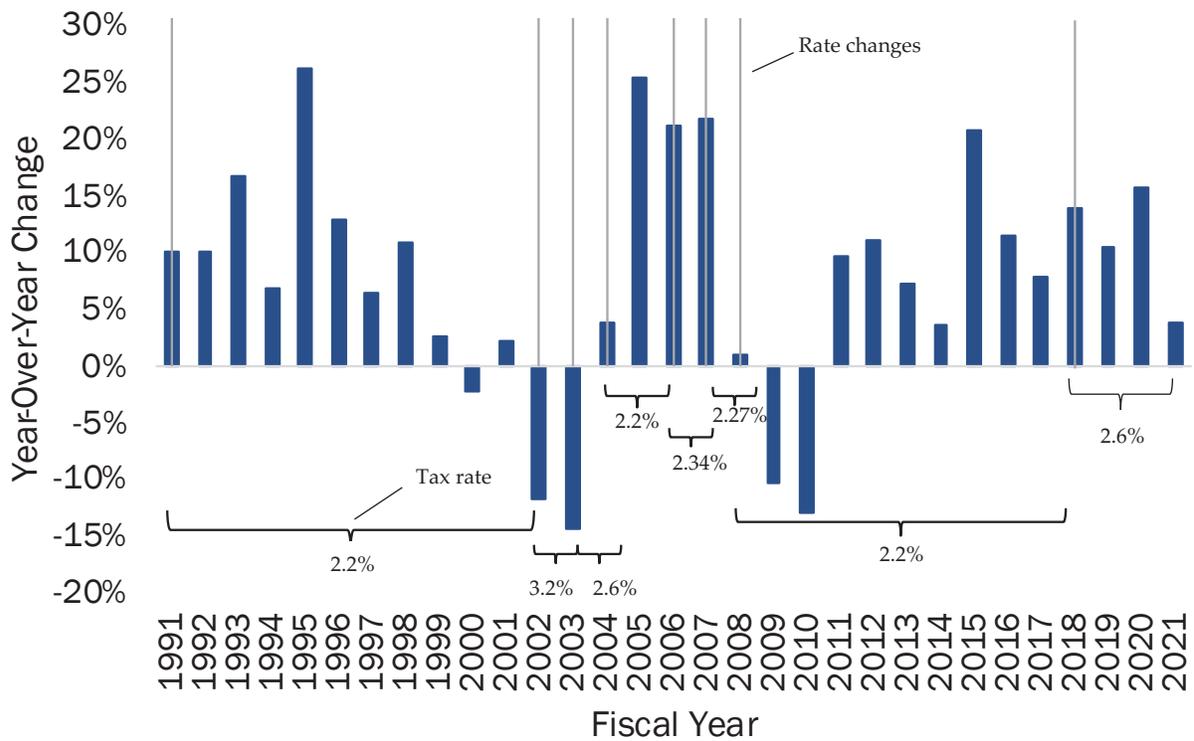
Use of Proceeds. Could align with Prosper’s mission, depending on structure.



Depending on structure, a business license tax could align with Prosper Portland’s mission to expand economic opportunity, equity, and community development. However, additional research would be necessary to consider the effects a surcharge could have on minority business owners, and whether taxing only certain subsets of businesses could mitigate any potential equity issues.

Exhibit 8. Year-Over-Year Change in Business License Tax Revenues, FY 1990-2021

Source: City of Portland.



Utility License Fees

Utility License Fees (ULFs) are a tax on utilities operating and earning revenue within the City of Portland. Per Portland’s Utility License Law (City Code Section 7.14), all utilities operating in the City must pay an annual tax of 5 percent of gross revenues as a ULF.¹⁷ These charges are passed on to utility customers.

The City is currently considering shifting to a universal *right-of-way* (ROW) code that would function similarly while unifying new and more than 300 existing utility license agreements.¹⁸ Other neighboring jurisdictions, including Eugene, Beaverton, and Oregon City currently use ROW codes to assess utility taxes. Under the new proposed code, rates would remain the same (5 percent of gross revenue, paid quarterly). Major changes include requirements for a standardized 5-year license agreement; annual registration; and standardized penalties, fines and payment schedules.¹⁹ If approved by City Council, the change would become effective in January 2023, following two public comment periods.²⁰

Current Revenues

In FY 2021, the City collected approximately \$88 million in revenues for the City’s General Fund. ULF is the third-largest revenue source for the General Fund, after property taxes and business license taxes.²¹ In Exhibit 9, ULF revenues are shown for FY 2012 – FY 2021. The large increase in 2012 is due to an amendment to City Code that included wireline providers in ULF collection (a change to the tax base).²² Excluding 2012, ULF revenue was relatively stable during this period, experiencing average annual growth of just under 2 percent per year. The City is not currently able to assess utility or franchise fees on internet providers under the Internet

¹⁷ Per the City of Portland: a “utility” is “the business of supplying electrical energy, gas, district heating or cooling, water, cable, communications, or other services through or associated with telecommunications utility, telephone or coaxial cable, sewage disposal and treatment, and other operations for public service but does not include transportation service, railroad operations, or services licensed under this Title.” Franchisees are also subject to ULFs. Office for Community Technology. “Utility Licenses | the City of Portland, Oregon.” [Www.portlandoregon.gov, www.portlandoregon.gov/oct/57445](http://www.portlandoregon.gov/oct/57445). Accessed 22 July 2022.

¹⁸ The ROW code would apply to any “current or future entity that provides a utility service and/or uses infrastructure in the right-of-way, whether or not the entity owns the infrastructure in the right-of-way.” Office for Community Technology. Portland Row FAQ. Apr. 2022, www.portlandoregon.gov/oct/article/799435. Office for Community Technology. “Portland ROW Code FAQ | ROW Code | the City of Portland, Oregon.” [Www.portlandoregon.gov](http://www.portlandoregon.gov), Dec. 2021, www.portlandoregon.gov/oct/article/796203. Accessed 22 July 2022.

¹⁹ Office for Community Technology. Portland Row FAQ. Apr. 2022, www.portlandoregon.gov/oct/article/799435.

²⁰ ORS 294.160 Office for Community Technology. “Portland ROW Code FAQ | ROW Code | the City of Portland, Oregon.” [Www.portlandoregon.gov](http://www.portlandoregon.gov), Dec. 2021, www.portlandoregon.gov/oct/article/796203. Accessed 22 July 2022.

²¹ Jacquiss, Nigel. “The City of Portland Wants to Change the Way It Charges Fees to Telecom, Electric and Gas Utilities. They’re Furious.” *Willamette Week*, 8 June 2022, www.wweek.com/news/2022/06/08/the-city-of-portland-wants-to-change-the-way-it-charges-fees-to-telecom-electric-and-gas-utilities-theyre-furious/. Accessed 22 July 2022.

²² Office for Community Technology. City of Portland Office for Community Technology Q1: Where Can I Find the Utility License Law (Portland City Code 7.14) and Its Administrative Regulations? 10 June 2013.

Freedom Act.²³ Under the proposed Right-of-Way (ROW) code, the City would still be unable to assess taxes on internet providers, thus the fee base will remain largely the same.

ULF revenue is allocated to the City’s General Fund and not purpose-restricted in City Code or in statute, nor is there a rate limitation in City Code or ORS.

Exhibit 9. ULF General Fund Revenues, FY 2012 – FY 2021

Source: Portland Comprehensive Annual Financial Reports



²³ According to ORS 305.822, Oregon may not “impose, assess, collect or attempt to collect a tax on Internet access or the use of Internet access if the tax was not in effect on October 6, 2001.” Oregon Laws. “ORS 305.822 - Prohibition on State or Local Tax on Internet Access.” Oregon.public.law, oregon.public.law/statutes/ors_305.822. Accessed 22 July 2022. In this context, a “tax” refers to a charge “imposed by a governmental entity for the purpose of generating revenues for governmental purposes”, but does not include “a fee imposed for a specific privilege, service, or benefit conferred to the payer of the charge.” In this context, a “tax” refers to a charge “imposed by a governmental entity for the purpose of generating revenues for governmental purposes”, but does not include “a fee imposed for a specific privilege, service, or benefit conferred to the payer of the charge”

Scenario: A 1 percent Increase to ULF Rate

Using FY 2021 as a baseline in which a 5-percent tax rate yielded \$88 million in revenue, a **1-percent increase to the rate charged on utility license fees would yield roughly \$17 million annually**. The overall rate would be 6 percent. Evaluation findings are below.

<p>Adequacy. A 1-percent additional tax would yield revenue of roughly \$17 million annually.</p> 	<p>A 1-percent rate increase would bring the rate from 5 percent to 6 percent (a 20-percent increase in the tax rate), and would yield an additional \$17 million if applied to all current franchise holders operating in the City of Portland. The surtax would affect all utility customers.</p>
<p>Stability. ULF is a relatively stable source of revenue, with moderate fluctuations and steady growth.</p> 	<p>Over a 30-year period, ULF revenues have remained relatively stable, growing around 4 percent per year from FY 1990 through 2019 (there may have been rate changes and were likely changes to the underlying base during this period).²⁴ See Exhibit 10 for the year-over-year rate of change for this revenue source.</p>
<p>Ease of Implementation. Public comment is required to change rates. Recent comments related to changes to the current structure (implementation of ROW fee) suggest this is currently a high-profile revenue source.</p> 	<p>Given the City already collects ULFs, it would not require significant initial or ongoing investment to collect increased ULFs in terms of infrastructure, administrative resources, or enforcement.</p> <p>Authorization would require public comment because state law requires local governments to provide opportunity for public comment on new fees, fee increases or fee structures.²⁵ The first public comment period for the proposed ROW code change drew 67 pages of comments and the second public comment period produced 159 pages of commentary.²⁶</p> <p>Given the observed backlash concerning this change, it is possible that a proposal to raise ULF rates could be met with similar opposition.</p>

²⁴ The standard deviation for growth in this revenue source is 4 percent, meaning most years growth was within 0 – 8 percent. Note that electrical utility fees fluctuated more than other utility fees, including in the steep decline in FY 2018, according to ECONorthwest analysis of City of Portland data.

²⁵ Oregon Laws. “ORS 294.160 - Opportunity for Public Comment on New Fee or Fee Increase.” Oregon.public.law, oregon.public.law/statutes/ors_294.160. Accessed 22 July 2022.

²⁶ Reichman, Lawrence. Second Round of Comments on Proposed Ordinance for Utility Access to the City’s Rights-of-Way. 1 June 2022, www.portlandoregon.gov/oct/article/799813.

<p>Equity. An increase in utility costs will disproportionately impact lower-income residents. Prosper Portland can work with the City to identify options for assistance, which would reduce revenues if outside resources are not available for this purpose.</p> 	<p>An increase in utility charges could disproportionately affect lower-income residents, for whom utility costs constitute a higher relative portion of income. Because the burden of increased utility taxes would decrease with higher income, increasing ULFs could be considered a regressive tax. While there are a few options in Portland for qualifying residents to receive financial assistance with utility payments, the City could consider providing additional energy assistance to offset a rate increase, structured around an income test for residents.²⁷</p>
<p>Neutrality. This option is neutral (unlikely to cause behavior changes).</p> 	<p>Because utilities are a necessary expense for residents and businesses, it is likely that any behavioral change would be small.</p>
<p>Use of Proceeds. Utility licenses fees do not have a strong nexus with Prosper’s mission, nor are they counter to it.</p> 	<p>There is no strong intersection between utility license fees and Prosper Portland’s missions to expand economic opportunity, equity, and community development. To the extent that an increase in utility costs raises equity concerns, there may be a slight conflict with Prosper’s equity focus.</p>

²⁷ Qualifying residents may apply for Low-Income Home Energy Assistance Program (LIHEAP) funding up to twice per year. In addition, the Oregon Energy Assistance Program (OEAP) is available year-round. Residents may also qualify for an Income-Qualified Bill Discount or private Oregon Energy Fund assistance.

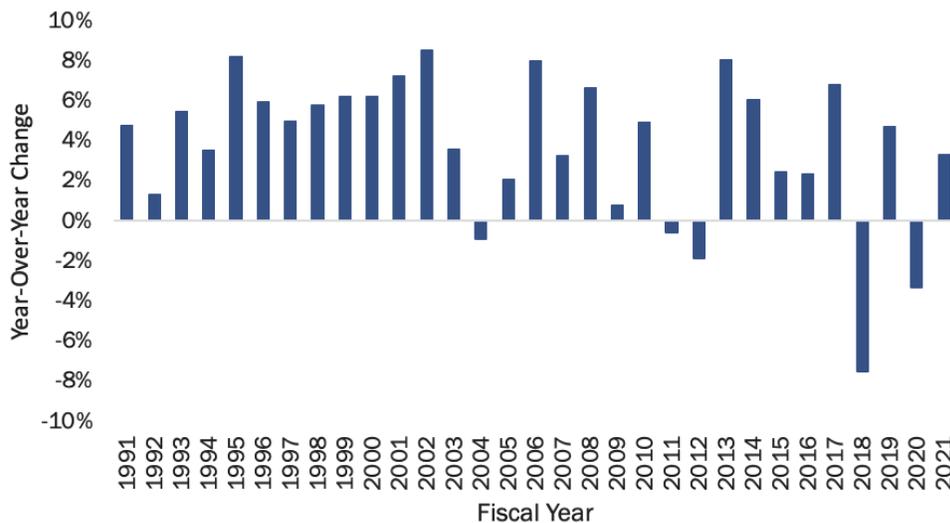
Precedent/Other Jurisdictions

The City of Gresham recently passed a 3-percent increase to its ULF in 2020, bringing both private and City utility fees to 10 percent. The City of Gresham estimated that the average PGE customer would experience a monthly increase of about \$3.10 as a result of the increase.²⁸ The resulting increase in revenue will pay for core services such as police, fire, and parks, with a small amount set aside for the City’s streetlight program. Additionally, the City of Woodburn passed a ULF in 2021, generally charging utility companies 5 percent of gross revenue with the exception of communication utilities, which are taxed at 7 percent.²⁹

Right-of-Way (ROW) usage fees function similarly to ULFs, and are employed by many Oregon jurisdictions, including Eugene, Beaverton, and Oregon City. ROW fees are assessed to utilities when they use public or city-owned lands for infrastructure or other purposes. However, these fees can also be levied on internet utility companies, following a 2016 court case.³⁰ These rates can be structured similarly to ULFs, charging a percentage of gross revenue, or can be an individual fee per permit, number of facilities, or amount of city lands used.³¹ Oregon City estimated additional costs to residents at “about the cost of a cup of coffee each month.”³²

Exhibit 10. Year-Over-Year Change in ULF Revenues, FY 1990 – FY 2021

Source: City of Portland



²⁸ City of Gresham. “Utility License Fees | City of Gresham.” *Greshamoregon.gov*, greshamoregon.gov/Utility-License-Fees/. Accessed 22 July 2022.

²⁹ Pierson, Heather. *Council Bill No. 3138*. 9 Nov. 2020, www.woodburn-or.gov/sites/default/files/fileattachments/public_works_projects_amp_engineering/page/12871/res._2162_-_right_of_way_utility_license_and_usage_fee_rates.pdf.

³⁰ Balmer. “S062816, Opinion.” *Cdm17027.Contentdm.oclc.org*, 26 May 2016, cdm17027.contentdm.oclc.org/digital/collection/p17027coll3/id/1390/rec/1. Accessed 22 July 2022.

³¹ City of Eugene. *UTILITY RIGHT -OF-WAY USE PERMIT FEES*. 2004.

³² Oregon City. “Right-of-Way Usage Fee FAQs | City of Oregon City.” *Www.orcity.org*, www.orcity.org/publicworks/right-way-faq. Accessed 22 July 2022.

Transient Lodgings Tax

Transient Lodging Taxes (TLTs) are taxes assessed to lodging establishments, which are generally passed along to lodging guests. These taxes also apply to short-term rental units, such as AirBNB units. Taxes can be collected and remitted by online travel companies and booking agents, such as Expedia.³³ Per the D.A. Davidson consultant report, Transient Lodging Taxes are collected by Multnomah County and distributed in accordance with the Visitor Facilities Intergovernmental Agreement (VFIGA) between the County, the City of Portland, and Metro. These funds are used for “supporting regional efforts to grow and improve Portland as a tourist destination” including community services.

Tourists in the City of Portland are currently subject to four lodging taxes levied upon the rent charged by the operator. Together, these add up to a 16 percent tax: (1) the Portland transient lodging tax (TLT) is 6 percent; (2) a statewide transient lodging tax, which, as of July 1, 2020, is set at 1.5 percent;³⁴ (3) Multnomah County charges 5.5 percent;³⁵ and (4) the Portland Tourism Improvement District Fee is a 3-percent tax on rent charged that is intended to support economic recovery in the tourism industry following the global COVID-19 pandemic and recession.³⁶ In 2021 the Portland City Council unanimously voted to increase this tax from 2 percent to 3 percent, effective July 1, 2021.

Current Revenue

In FY 2019, the TLT generated approximately \$39 million in revenues for the City’s General Fund (83 percent of total TLT revenues). Revenues grew an average of 12 percent annually between 2012 and 2019. However, TLT revenue has declined considerably since FY2020 due to the COVID-19 pandemic. Between 2020 and 2021, revenues dropped over \$25 million (86 percent). Revenues for the City General Fund from the Transient Lodging Tax from fiscal years 2012 to 2021 are shown in the figure below:³⁷

³³ Kopyy, Roger. “Transient Lodgings Filing and Payment Information.” *Portland.gov*, www.portland.gov/revenue/transient-lodgings-tax. Accessed 22 July 2022.

³⁴ 5 percent of the statewide tax is retained by lodging providers; 65 percent of the statewide tax is required to be spent on state tourism programs; 20 percent of the statewide tax is required to be spent on regional tourism programs; 10 percent of the statewide tax is to be spent on a competitive grant program “to help develop and improve the economies of communities throughout Oregon by means of the improvement, expansion, and promotion of the visitor industry.”

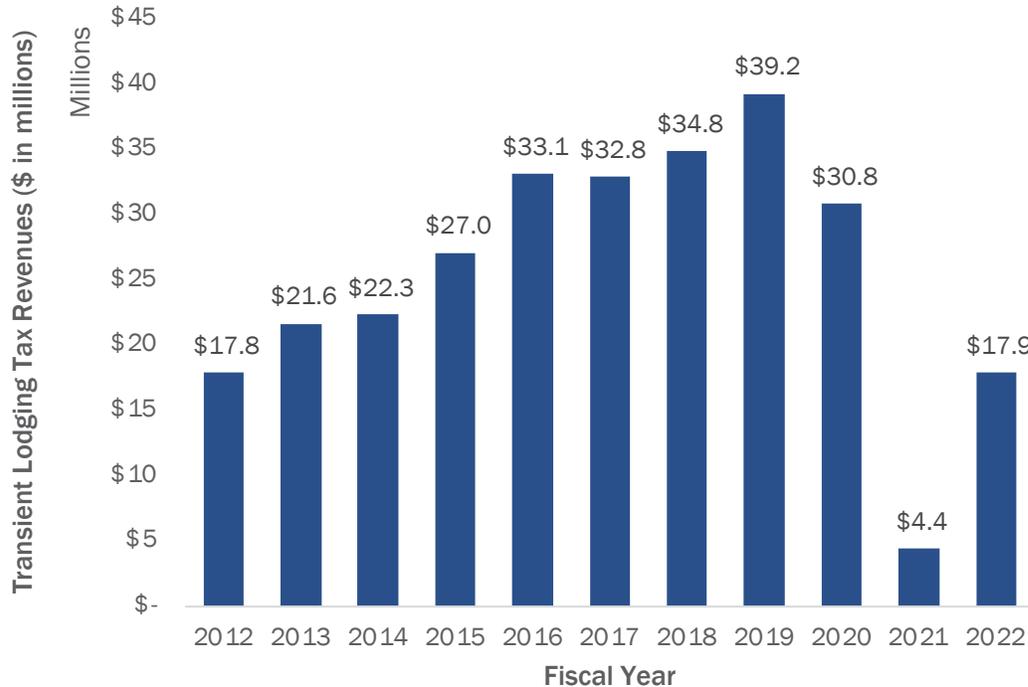
³⁵ 2.5 percent of the 5 percent tax is set aside for the Convention Center Phase II; 2.725 percent to the Convention Center Phase I; and 0.275 percent is retained by hotel operators

³⁶ Kopyy, Roger. “Transient Lodgings Filing and Payment Information.” *Portland.gov*, www.portland.gov/revenue/transient-lodgings-tax. Accessed 22 July 2022.

³⁷ City of Portland. “Annual Financial Reporting.” *Portland.gov*, www.portland.gov/omf/brfs/accounting/finance-reports. Accessed 22 July 2022.

Exhibit 11. Transient Lodging Tax General Fund Revenues, FY 2012 – FY 2022 (budgeted)

Source: Portland Comprehensive Annual Financial Reports



As COVID-19 restrictions are lifted and travel increases, revenues are expected to continue to recover.

Eighty-three percent of the Portland TLT (5 percent of rents) is allocated to the City General Fund. The remaining 17 percent of the Portland TLT (one percent of rents) is allocated to Travel Portland, an organization that generates travel demand and manages tourism marketing for Portland.³⁸

What limitations in state law or city ordinance are attached to this revenue source?

Under ORS 320.350, Oregon city governments must use at least 70 percent of net revenue from a new or increased local transient lodging tax for tourism-related promotion or facilities.³⁹ Under this limitation, the City of Portland could not allocate more than 30 percent of additional tax revenues to Prosper Portland in the event of a TLT increase.

³⁸ Kopyy, Roger. "Transient Lodgings Filing and Payment Information." *Portland.gov*, www.portland.gov/revenue/transient-lodgings-tax. Accessed 22 July 2022.

³⁹ "ORS 320.350 - Tax Moratorium." *Oregon.public.law*, oregon.public.law/statutes/ors_320.350. Accessed 22 July 2022.

Transient Lodging Tax Scenarios

We developed a range of revenue impacts from a TLT rate increase. The low end of the range shows what would have occurred to this revenue stream during the pandemic, and the upper end is based on a three-year average of pre-COVID-19 years 2017 through 2019 (and grown by 12 percent from 2020 to 2021, the average rate of growth in these revenues). Exhibit 12 below estimates the range of revenue generated from an additional 1-percent TLT surtax dedicated to Prosper Portland, resulting in a total rate of 7 percent (6 percent to the City General Fund and 1 percent to Travel Portland).

Exhibit 12. Transient Lodging Tax Scenarios (\$ Millions)

Source: ECONorthwest

	Low: 2020-21 Actual Revenue		High: 2017-2019 Average Revenue	
	2020	2021	2020	2021
Baseline Revenue	\$30.8	\$4.4	\$35.6	\$39.7
Additional revenue from a 1 percent TLT surtax (total rate of 7 percent)	\$1.8	\$0.3	\$2.1	\$2.4

Using actual revenue from 2021, this scenario would have produced \$300,000 of additional available revenue. Under the more optimistic revenue scenario (using tax base averages from 2017 to 2019 and a growth rate of 12 percent), the increase would produce \$2.4 million in revenue. Additional findings from our analysis are below.

<p>Adequacy. It is unlikely that TLTs could be raised high enough to replace Prosper’s expiring TIF revenues.</p> 	<p>A 1-percent increase to the TLT would generate less than \$3 million per year, even under the optimistic end of the range of revenues. The TLT would need to increase to over 14 percent under the optimistic revenue scenario -- more than twice the current rate -- to reach the target revenue of \$17 million. It is unlikely that doing so would be politically feasible, and we conclude that a TLT is unlikely to provide a large share of revenue Prosper anticipates needing.</p>
<p>Stability. TLTs are a volatile source of revenue given their reliance on tourism conditions.</p> 	<p>Portland TLT revenue growth varied considerably between 2013 to 2021, as illustrated by Exhibit 13, below. Revenue fluctuates with economic conditions and are sensitive to other factors that may impact travel. This</p>

	<p>could include future COVID-19 pandemic waves and Portland’s reputation as a tourism destination.⁴⁰</p> <p>In December of 2021, the Portland Business Alliance held a forum to discuss Portland’s image as a tourist destination. Major concerns included “COVID-19, wildfires, political violence and public safety concerns.”⁴¹ Another source of tourism revenue, conventions, have also decreased significantly in Portland since 2020.⁴²</p>
<p>Ease of Implementation. A new tax will require voter approval and likely substantial communication effort.</p> 	<p>Given the City is already collecting TLTs, it should not require significant initial or ongoing investment to collect increased TLTs in terms of infrastructure, administrative resources, or enforcement. However, the City may face challenges to increasing TLTs. Current allocation of tourist tax revenues is defined in municipal code, presenting a barrier to modifications.</p> <p>Changes to the allocation or passing additional tourism taxes would require voter approval through a levy process. Prior to making changes, the City must also engage the public in a public hearing, according to Portland Code 6.04 (Transient Lodgings Tax). Additionally, should the City propose an increase to TLTs, it would need to comply with ORS 294.160, “Opportunity for Public Comment on New Fee or Fee Increase.”⁴³</p>
<p>Equity. TLTs generally have strong vertical equity as tourism burdens are shifted to those with higher incomes.</p> 	<p>Tourism taxes largely impose tax burdens on tourists and business travelers. Without research, equity effects are unclear, but an argument could be made that tourism taxes are vertically equitable, in that they may largely affect people who have greater disposable income for travel, although the fact that taxes are levied regardless of ability to pay (and with no possibility of relief) may limit travel opportunities for lower-income people.</p>

⁴⁰ The standard deviation for growth in this revenue source is 9 percent, meaning most years growth was within 9 percent of the median. Note that electrical utility fees fluctuated more than other utility fees, including in the steep decline in FY 2018, according to ECONorthwest analysis of City of Portland data.

⁴¹ Gallivan, Joseph. “Portland to Tourists: Please Come Back.” *KOIN.com*, 20 Dec. 2021, www.koin.com/local/multnomah-county/portland-to-tourists-please-come-back/.

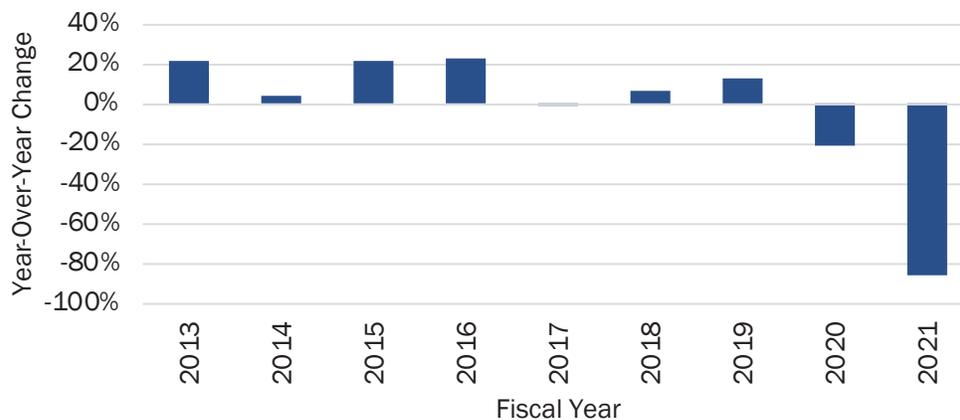
⁴² Chalmers, Keely. “Bad Reputation Has Large Conventions Skipping Portland, Tourism Report Says.” *Kgw.com*, 2021, www.kgw.com/article/news/local/conventions-skipping-portland-bad-reputation/283-cce77a73-7b63-4e1e-9c75-850e97cc9ad3. Accessed 22 July 2022.

⁴³ Oregon Laws. “ORS 294.160 - Opportunity for Public Comment on New Fee or Fee Increase.” *Oregon.public.law*, oregon.public.law/statutes/ors_294.160. Accessed 22 July 2022.

	<p>In addition, tourism can “put a strain on city services” and tourism taxes can fairly shift these costs to those utilizing services.⁴⁴</p> <p>Because Oregon does not have a sales tax, its primary method of assessing revenue from tourists is via its tourism taxes. However, its tax rates are below the national average of state tourism taxes (13.5 percent).⁴⁵</p>
<p>Neutrality. Likely minimal impact on tourism within Portland.</p> 	<p>If TLTs become high enough so as to make travel to Portland unaffordable, there is a risk that tourism revenue could decrease as tourists opt to travel elsewhere, although most jurisdictions will assess some level of tourist tax.⁴⁶ In fact, TLTs and other tourism taxes are “considered efficient relative to taxing other sectors.”⁴⁷</p>
<p>Use of Proceeds. TLT has a strong nexus with Prosper’s mission of economic vibrancy and community equity.</p> 	<p>The TLT burden primarily falls on visitors to Portland, which aligns with Prosper’s mission of advancing economic vibrancy while protecting Portland residents.</p>

Exhibit 13. Year-Over-year Change, TLT Revenues, FY 2013-2021

Source: City of Portland ACFRs



⁴⁴ Dinatale, Sadie. Assessing and Responding to Short-Term Rentals in Oregon. 2017.

⁴⁵ Tax Fairness Oregon. HB 2500: A First Step in Addressing Tourism Taxes. 9 Feb. 2021.

⁴⁶ Murray, Matthew. Exporting State and Local Taxes: An Application to the State of Maine. Oct. 2006.

⁴⁷ DiNatale, Sadie, et al. Short-Term Rentals in Small Cities in Oregon: Impacts and Regulations. Dec. 2018.

Motor Vehicle Rental Tax

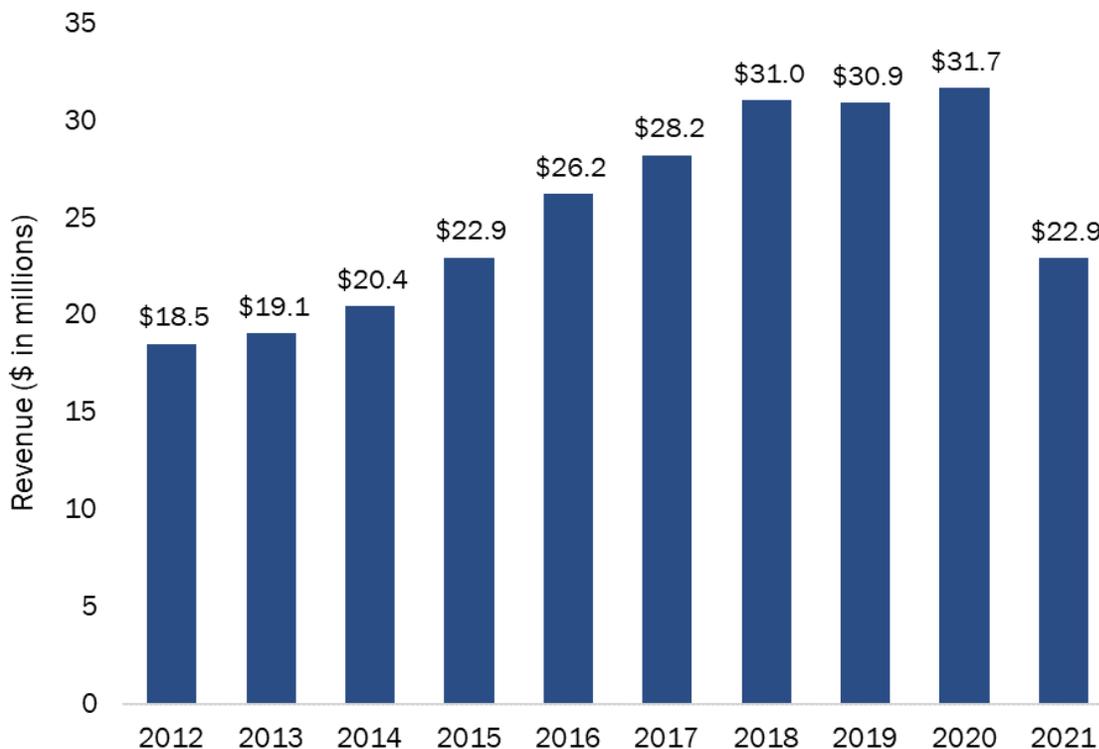
In Multnomah County, a motor vehicle rental tax (MVRT) is imposed on the rental of motor vehicles of generally less than 30 days in duration. The base rate of the tax imposed is 14.5 percent of the rental fee, with a surcharge of 2.5 percent, for a total fee of 17 percent.⁴⁸ There is currently no motor vehicle rental tax in Portland.

Current Revenue

MVRT revenues showed steady growth in the decade prior to the pandemic, increasing from \$18.5 million in 2012 to \$31.7 million in 2020 before falling substantially in 2021 to \$22.9 million, largely due to the impact of the COVID-19 pandemic. From 2012 to 2020, revenue growth averaged 8 percent per year before declining 28 percent in 2021; there were no rate changes during this time. The Multnomah County FY 2022 Adopted Budget included \$25.0 million in revenues, anticipating continued recovery from pandemic conditions.⁴⁹

Exhibit 14. Motor Vehicle Rental Tax Net Revenue, FY 2012-2021

Source: Multnomah County CAFRs



Multnomah County allocates base MVRT revenues (from the 14.5 percent) to the General Fund, the Road Fund, the Bicycle Path Construction Fund, the Willamette River Bridges Fund, and the

⁴⁸ Sowle, Agnes. *Ordinance No. 1132*. 7 May 2009.

⁴⁹ Kafoury, Deborah. "FY 2022 Adopted Budget." *Multnomah County*, 10 Sept. 2020, www.multco.us/budget/fy-2022-adopted-budget. Accessed 22 July 2022.

Special Excise Tax Fund. The surcharge revenues (2.5 percent rate) are allocated toward the Visitors Facilities Trust Account.⁵⁰

ECONorthwest did not identify any special restrictions or limitations at the state level associated with the allocation of those funds. The City of Portland could allocate funding to Prosper Portland either from the General Fund or with a specific allocation in the municipal code (as is the case of Multnomah County’s 2.5 percent surcharge allocated to the Visitors Facilities Trust Account). A codified allocation would be more difficult politically but has advantages of stability and relative certainty.

Motor Vehicle Rental Tax Scenarios

Prosper Portland could pursue an allocation of existing Motor Vehicle Rental Tax revenues from Multnomah County, either from their General Fund revenues or from a discretionary fund through voter approval. Prosper Portland could also pursue an allocation from a new Motor Vehicle Rental Tax for the City of Portland.

Scenarios: A 3 Percent Motor Vehicle Rental Tax

A range of estimated revenue is shown below, based on a 3-percent surtax (bringing the total tax rate to 20 percent). It is not known what share of car rentals in Multnomah County occur in the City of Portland. Below we assume that a conservative 80 percent of rentals occur in the City of Portland, with rentals originating from the Portland International Airport likely driving the City’s share. As with the TLT, a low-end scenario based on pandemic years 2020 and 2021 is compared to a three-year average of pre-pandemic years (2017 – 2019) and grown by the annual average of 8 percent to show what a “typical” year of revenue would look like.

Exhibit 15. Motor Vehicle Rental Tax Scenarios

Source: ECONorthwest, Multnomah County

	Low: 2020-21 Actual Revenue		High: 2017-2019 Average Revenue	
	2020	2021	2020	2021
Baseline Revenue: Multnomah County revenues at 17 percent rate	\$31.7	\$22.9	\$30.1	\$32.5
Estimated revenue generated from 3 percent surtax (20 percent total rate)	\$4.5	\$3.2	\$4.2	\$4.6

Assuming that 80 percent of car rentals generating in Portland were subject to a 3-percent surtax rate, this surcharge would have yielded \$4.5 million in 2020 and \$3.2 million in 2021, and between \$4.2 million - \$4.6 million had these years been more typical (*i.e.*, without COVID impacts). Additional findings from our analysis are below.

⁵⁰ Kafoury, Deborah. “FY 2022 Adopted Budget.” *Multnomah County*, 10 Sept. 2020, www.multco.us/budget/fy-2022-adopted-budget. Accessed 22 July 2022.

<p>Adequacy. The MVRT would rate may need to be over 10 percent to replace Prosper’s expiring TIF revenues.</p> 	<p>A 3-percent MVRT (bringing the total VRT paid in Portland to 20 percent) would raise about \$4 million under pre-pandemic conditions.</p>
<p>Stability. Motor Vehicle Rental Taxes are a volatile source of revenue given their reliance on tourism conditions.</p> 	<p>MVRT revenue sources may be less stable post-pandemic, due to longer-term trends in transportation choices. The rise of peer-to-peer car-sharing and ride-sharing provide alternative means of travel that are not taxed under MVRT.⁵¹ Revenues may fluctuate by season and other factors that may impact travel. These factors could include future pandemic waves, fluctuations in tourists’ disposable income, Portland’s reputation as a tourism destination, and natural disasters such as wildfires. See Exhibit 16 for the annual growth in MVRT from 2011 – 2021.</p>
<p>Ease of Implementation. There may be significant up-front costs to implementing and administering a new Motor Vehicle Rental Tax.</p> 	<p>Implementing a new tax in the City of Portland would require voter approval. The vote would specific funding specifically earmarked for Prosper Portland or for the General Fund which would provide less security for Prosper.</p> <p>This option creates a new responsibility for the Revenue Division or another regulatory agency responsible for collection of the tax and other necessary details surrounding its implementation, which would likely entail an ongoing cost. A contractual arrangement with Multnomah County to collect and transfer the revenue to the City would likely cost less than if the City administered the tax directly.</p>
<p>Equity. An increase to the MVRT would significantly increase the cost of car rentals, which could burden lower-income populations.</p> 	<p>Implementing a new version of this tax specifically for the City of Portland would result in additional impact on populations already paying the Multnomah County tax. As with other consumption-based taxes, this tax would be more burdensome to lower-income populations. Administering a relief program for this tax would likely be difficult. Prosper could consider a surtax on luxury car rentals, which may address equity concerns but would likely not generate much revenue.</p>

⁵¹ Watson, Garrett. “Car Rental Taxes | Reforming Rental Car Excise Taxes.” *Tax Foundation*, 26 Mar. 2019, taxfoundation.org/reforming-rental-car-excise-taxes/. Accessed 22 July 2022.

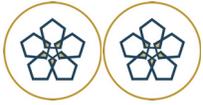
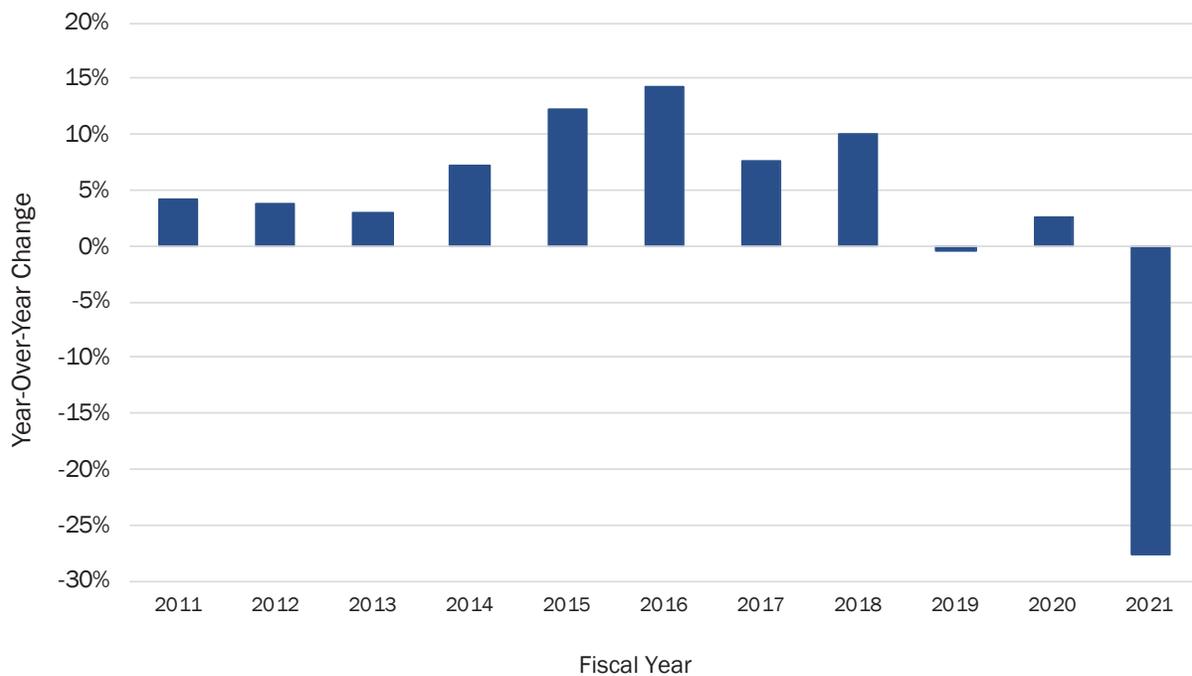
<p>Neutrality. Additional vehicle rental taxes may discourage vehicle rentals in Portland.</p> 	<p>Adding an additional tax on top of the pre-existing Multnomah County MVRT could further discourage vehicle rentals within Portland and impel customers to car rentals outside the City. Multnomah County’s MVRT is 17 percent when including the surcharge for the Visitors Facilities Trust Account, already significantly higher than in neighboring counties. Neighboring counties do not have a motor vehicle rental tax (Clackamas, Hood River, Washington, and Columbia); Lane County’s MVRT rate is 10 percent.⁵²</p>
<p>Use of Proceeds. Unclear if the MVRT is primarily borne by visitors or by those with greater ability to pay.</p> 	<p>It is not clear if this tax aligns with Prosper Portland’s mission, which likely includes the promotion of Portland as a desirable location to visit. If the tax is primarily borne by those with greater ability to pay, then the MVRT would at least not conflict with equity goals, but the data do not currently exist to confirm or deny this premise.</p>

Exhibit 16. Year-Over-Year Change in Motor Vehicle Rental Tax Revenues, Multnomah County. FY 2011-2021

Source: Multnomah County CAFRs



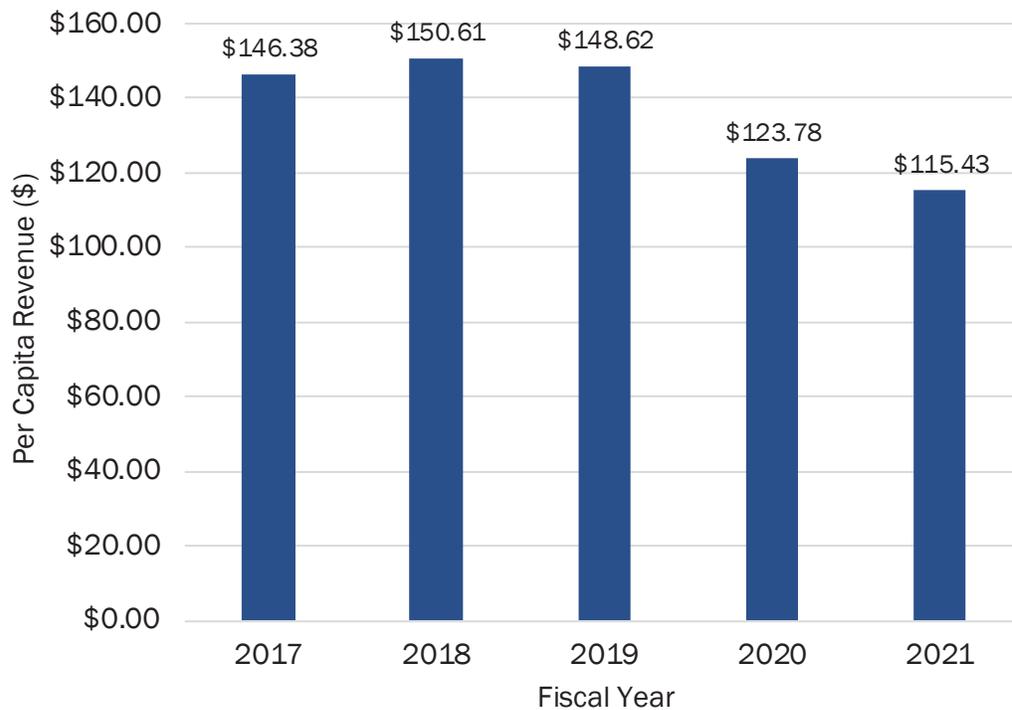
⁵² Lane County. *Lane Code*. 2019.

Food and Beverage Tax

The City of Ashland levies a 5-percent tax on the sale of prepared food and beverages sold by restaurants located within the City, with a number of exemptions.⁵³ The tax yielded roughly \$3 million for the City from 2017 through 2019 before declining substantially during the pandemic. The per-capita revenues are shown below; between 2019 and 2020, revenues dropped 15 percent and fell an additional 6 percent in 2021.

Exhibit 17. Per Capita Food and Beverage Tax Revenue, Ashland, FY 2017-2021

Source: City of Ashland



Food and Beverage Tax Scenarios

ECONorthwest used per-capita revenues from the City of Ashland, adjusted for the 2020 and 2021 population of the City of Portland, to produce an estimate of food and beverage tax (F&B)

⁵³ The exemptions include food and beverages: sold by public or private schools or colleges except for independent contractor operators which are subject to the tax; sold on hospital grounds; provided by bed and breakfast establishments to their guests; sold in vending machines; sold in temporary restaurants including food stands, booths, etc. operated by nonprofit organizations or service clubs; served in connection with overnight or residential facilities; provided by nonprofit tax-exempt organizations to citizens over 60 years of age as part of a recognized senior citizen nutritional program; sold for resale to the public; sold in bulk to the public for nonimmediate consumption off the premises; which are candy, popcorn, nuts, or other confections but not including ice cream, cakes, or other desserts; sold by an operator at a single food service event located within the City in which restaurant or catering services (exclusive of alcohol) exceed \$5,000, in which case the applicable food and beverage tax shall not be excused but shall be capped at \$250.

revenues. As with both TLT and MVRT above, a low (2020 – 2021 actuals) and high (2017 – 19 average) range is shown for two scenarios. Additional findings from our analysis are below.

Exhibit 18. Food and Beverage Tax Scenarios (\$ Millions)

Source: ECONorthwest, City of Ashland data

	Low: 2020-21 Actual Revenue		High: 2017-2019 Average Revenue	
	2020	2021	2020	2021
Scenario 1: 1% food & beverage tax	\$16.1	\$15.2	\$19.3	\$19.5
Scenario 2: 5% food & beverage tax	\$80.6	\$75.8	\$96.7	\$97.5

<p>Adequacy. A 1-percent F&B tax would likely generate \$17 million, sufficient to replace Prosper’s expiring TIF revenues</p> 	<p>Based on the City of Ashland per capita revenue, it is likely that a 1-percent F&B tax would yield sufficient revenue to replace the \$17 million in expiring TIF revenues. The City of Ashland restaurant spending may be higher on a per-capita or per-meal basis due to the importance of tourism in that area, so further analysis is recommended to confirm this methodology. (Our estimate is in line with a 2019 estimate by Portland Parks & Recreation conducted for a Council work session on the financial sustainability of the Parks Bureau; the estimate, also based on the Ashland tax, was \$92 million per year for a 5-percent tax.)</p>
<p>Stability. F&B taxes are likely to rise and fall with both economic and health-related conditions.</p> 	<p>The precipitous drop in Ashland’s revenues during the pandemic was due to social distancing measures and restaurant closures (both temporary and permanent). Dining out has not fully recovered from pre-pandemic levels, and the current high-inflation environment may further dampen activity.</p>
<p>Ease of Implementation. There may be significant up-front costs to implementing and administering a new F&B tax.</p> 	<p>Implementing a new tax in the City of Portland would require voter approval. The vote could specify funding specifically earmarked for Prosper Portland or for the General Fund which would provide less security for Prosper. There are likely to be stakeholders who are actively opposed to this tax option.</p> <p>This option creates a new responsibility for the Revenue Division or another regulatory agency responsible for collection of the tax and other necessary details surrounding its implementation, which would likely entail an ongoing cost.</p>

<p>Equity. An increase to the F&B tax would increase the cost of dining out, which could burden lower-income populations.</p> 	<p>As with other consumption-based taxes, this tax has the potential to be more burdensome to lower-income populations. Administering a relief program for this tax would likely be difficult. As with Ashland’s tax, exemptions can protect behaviors and transactions which may tie more closely to necessary spending (such as purchases at a hospital).</p>
<p>Neutrality. A F&B tax may lead to business relocation decisions and change consumer behavior.</p> 	<p>Because there are very few F&B taxes in Oregon, it is possible that restaurants may consider relocating from Portland to a nearby community. Research has found that SNAP participants consume relatively more food at home instead of going out to restaurants in geographies with a restaurant tax; by one paper, a 1-percent increase in restaurant tax is associated with a 7- to 8-percent increase in SNAP participants consuming food at home.⁵⁴</p>
<p>Use of Proceeds. Unclear if the F&B tax aligns with Prosper’s mission.</p> 	<p>Food and beverage taxes tend to be more burdensome to lower-income populations, so there is a risk this tax would have a greater effect on lower-income populations, which would not align with Prosper Portland’s mission.</p>

⁵⁴ Dong, Diansheng, and Hayden Stewart. *Food Taxes and Their Impacts on Food Spending*. 2021.

Appendix: DA Davidson Analysis

The business license tax alternative considered by DA Davidson was evaluated along thirteen criteria, with most considerations falling under the “mixed or neutral” category. Below is a table summarizing their findings.⁵⁵

Exhibit 19. Business License Tax Funding Resource Attributes

Source: DA Davidson

	Advantages	Mixed or Neutral Considerations	Risks
Business License Taxes	Scale/size of revenue potential is quite large. Existing model/administrative infrastructure is already in place. Minimal financial risk.	Can be somewhat inconsistent in terms of stability and predictability. Has some general limitations or restrictions. Somewhat aligned with Prosper Portland’s mission. Staffing issues with existing accommodations for receiving funds. Existing staffing levels would have some issues to accommodate ongoing administration. Somewhat aligned with existing Prosper Portland knowledge. Some potential political risks.	Limited certainty of resource development. Negative potential political/legislative risk. Negative impact on other city/community resources.
Utility License Fees	Potential scale of revenue potential. Potential stability. Use of existing infrastructure and administrative resources. Minimal financial risk.	Potential restrictions. Competitive advantage. Staff resources for set up and administration. Political feasibility.	Certainty of resource development. Relationship to Portland Prosper mission. Potential political and legislative risk. Impact on other city or community resources.
Transient Lodging Taxes	Stability of Revenue. Use of existing administrative and staffing infrastructure. Minimal financial risk.	Scalability of revenue. Flexibility of revenue. Nexus to Prosper Portland’s mission. Political and legislative feasibility and/or risk.	Limited certainty of resource development. Potential negative impact on other city or community resources.

⁵⁵ Prosper Portland Financial Sustainability Plan 2.0 Phase 2 Consultant’s Report, D.A. Davidson

<p>Motor Vehicle Rental Taxes</p>	<p>Consistent in terms of stability and predictability. Existing model/administrative infrastructure is already in place. Minimal to no staffing issues with existing accommodations for receiving funds. Requires taking minimal to no financial risk.</p>	<p>Scale/size of revenue potential is potentially adequate to Prosper Portland’s needs. Not extremely flexible and/or restrictive. Somewhat aligned with Prosper Portland’s mission. Existing staffing levels would have some issues to accommodate ongoing administration. Somewhat feasible in terms of political or legislative risks. Some potential political risks.</p>	<p>Limited certainty of resource development. Negative impact on other city/community resources.</p>
<p>Food & Beverage Tax</p>	<p>Scale/size of revenue source has lots of potential. Source of revenue is quite stable/predictable. Requires taking little to no financial risk.</p>	<p>Has some general limitations or restrictions. Existing Model/Administration Infrastructure is not in place/would require set-up. Would be somewhat staff intensive to set-up. It would be somewhat staff intensive for ongoing administration. Somewhat aligned with existing Prosper Portland knowledge. Potential for issues with political/legislative feasibility. Neutral impact on other city/community resources</p>	<p>Not aligned with Prosper Portland’s mission. Limited certainty of resource development. Negative political/legislative risks.</p>

ATTACHMENT 3

Analysis of Development Finance Programs for Prosper Portland

Prepared by: Council of Development Finance Agencies

Analysis of Development Finance Programs for Prosper Portland

Prepared for:
Prosper Portland

Prepared by:
Council of Development Finance Agencies

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Acknowledgments

The report was produced by the Council of Development Finance Agencies (CDFA).

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The Council of Development Finance Agencies is a national association dedicated to the advancement of development finance concerns and interests. CDFA is comprised of the nation's leading and most knowledgeable members of the development finance community representing public, private and non-profit entities alike. For more information about CDFA, visit www.cdfa.net or e-mail info@cdfa.net.

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The report is intended to provide accurate and authoritative information. The authors are not herein engaged in rendering legal, accounting, or other professional services, nor do they intend that the material included herein be relied upon to the exclusion of outside counsel. Those seeking to conduct complex financial deals using the tools mentioned are encouraged to seek the advice of a skilled legal/consulting professional. Questions concerning CDFA's engagement on this project should be directed to info@cdfa.net.



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Overview

About the Report

The *Analysis of Development Finance Programs for Prosper Portland* report was prepared by the Council of Development Finance Agencies (CDFA) on behalf of Prosper Portland.

This report analyzes Prosper Portland’s existing development finance programs and identifies potential federal programs that align with the organization’s capital needs and programmatic focus areas, with special attention paid to the administrative support necessary to acquire and manage such funds.

CDFA recommends that Prosper Portland create a full-time Grants Manager position in order to increase the efficiency and effectiveness of applying for federal funds.

The *Analysis of Development Finance Programs for Prosper Portland* is divided into three sections:

Section A: Summary of Capital Needs

- Situates this report into Prosper Portland’s broader financial sustainability planning
- Provides a summary of key takeaways from interviews, with special attention on the capital needs identified and programmatic focus areas at Prosper Portland

Section B: Recommended Federal Funding Sources

- Describes the criteria used to identify the recommended funding sources
- Lists suitable federal agencies and specific funding opportunities
- Shares a high-level description of each funding opportunity

Section C: Staffing Considerations

- Compares the cost of hiring a full-time team member at Prosper Portland dedicated to grant writing with the benefit that could be realized from the recommended funding
- Presents best practices for improving cost/ benefit outcomes with applying to federal funding sources

This document is complementary to other written reports and planning efforts advancing the financial sustainability goals of Prosper Portland, the most notable of which is the *Phase 2 Consultant’s Report* prepared by D.A. Davidson.

Methodology

Key Objectives

The *Analysis of Development Finance Programs Report* was guided by the following objectives:

- Review existing economic development and finance programs
- Evaluate capital needs for each program and priority areas among those needs
- Identify eligible sources of federal funding for Prosper Portland's current economic development and finance programs
- Analyze the cost and benefit of pursuing federal grants as a source of program capital
- Recommend specific funding opportunities based on the focus areas of the organization, capital needs, and cost-benefit assessment for each source of funding

To achieve these objectives, CDFA used a combination of interviews and research to inform this report's final recommendations regarding the role of federal funding in Prosper Portland's larger financial sustainability strategy.

Interviews

To complete this work, CDFA conducted interviews with key Prosper Portland staff members from different departments within the organization and mapped the priority areas in need of funding. During these one-on-one conversations, the interviewees were first asked to describe their role within the organization as it relates to economic development and finance. CDFA then asked each staff person to describe the present and future capital needs for their area of work in the organization. The interviews also included discussion about any past experience or knowledge of Prosper Portland applying for and accessing federal funding.

Research

CDFA's research and compilation of the federal funding opportunities identified in this report were guided by key takeaways from staff interviews. After identifying potential funding sources that aligned with the existing economic development activities, finance programs, and key focus areas at Prosper Portland, CDFA used a set of criteria to assess the suitability of each source of funds.

The criteria included an evaluation of the staff time needed to apply for and manage funds, the short versus long-term availability of funding, match requirements to acquire funds, and the competitiveness of the opportunity.

Section A: Funding Needs

This report offers recommendations for federal funding opportunities that can help meet the current funding needs of Prosper Portland. To better understand these needs, CDFA conducted interviews with members of the Development and Investment (D&I) and Economic Development (EcDev) departments.

Uses for Funding

The most common theme across interviews was the emphasis on the need for flexible capital that is less restricted than TIF revenues and enables Prosper Portland to better meet community and business needs. As TIF revenues decrease in the coming years, there will be a growing demand at Prosper Portland for alternative sources of funding that can be used to support both program capitalization and operations. Within D&I and EcDev there are opportunities to expand existing programs and to create new programs that would require additional seed capital. Interview discussions focused on programmatic growth in the near term and new program development in the mid to long term.

In addition to the capital needs for the organization's development finance programs, interviewees also identified asset investment as an area of current and future funding needs. There is major potential to source funding for land acquisition, site improvement, and redevelopment of physical assets owned by Prosper Portland. This includes the hotel property and other long-term projects which could become revenue-generating in support of financial sustainability.

Tied to these financial needs, there is also a desire to acquire funding that could be used for program administration costs. Making a strategic choice to pursue federal grants as a source of funding would likely necessitate hiring a grants manager for the organization, which could be covered in part by those grant dollars for the administration of any awarded funds. Interviewees consistently noted the difficulty of relying on existing staff when applying for grant opportunities because of the time required to coordinate, assemble, and manage such applications. Staffing costs associated with program implementation could also be secured through federal grants to meet the operational needs of the organization.

Focus Areas for Funding

Interviewees shared priority funding areas for their departments, the focus of which informed recommendations for federal grant opportunities. The following highlights key topics and funding needs identified across interviews that fall within the scope of Prosper Portland's development finance work.

- **Green cities** - specifically decarbonization and environmental justice
- **Redevelopment** - financing for private development and for Prosper Portland's investments
- **Racial justice & wealth building** - via small business lending and equitable development
- **Infrastructure** - particularly equitable transit-oriented development

Section B: Recommended Federal Funding Sources

Evaluation Criteria

CDFA reviewed federal funding programs across multiple agencies. To identify programs best suited for Prosper Portland, CDFA used the following criteria and considerations to evaluate each potential federal program or opportunity:

- Does the program provide enough capital to meet the need?
- Does the program focus on an existing priority area for Prosper Portland?
- Is the program known for providing longer-term funding across multiple years? Will the program allow for funding that covers staffing and administrative costs?
- How competitive is the funding opportunity?
- Does the program require a financial or in-kind match?

Funding Opportunities

Based on this analysis, CDFA identified a variety of potential opportunities. They are presented in order of greatest opportunity, taking into consideration recommendations from Prosper Portland staff and nationally accepted best practices for development finance agencies engaging with federal agencies.

CDFA recommends that Prosper Portland first begin pursuing CDFI certification as a part of a larger federal funding strategy. The CDFI Fund offers Technical Assistance awards to emerging CDFIs that could be used to offset the human resourcing costs associated with both establishing the CDFI and applying for other grants. Having a dedicated grants manager on staff would help Prosper Portland more effectively and efficiently pursue the funding opportunities outlined in this section. Although the Portland metropolitan area has six CDFIs, those institutions generally focus on housing needs so Prosper Portland's certification would complement and diversify the city's CDFI landscape. CDFI certification would also assist Prosper Portland in furthering its mission and promoting equitable economic growth.

Establishing a CDFI and acquiring certification is not a necessary qualification for pursuing other sources of federal funds, however, aside from the CDFI Fund's Technical Assistance and Financial Assistance awards. Most of these additional funding opportunities below are grant awards, though some of the funding mechanisms include cooperative agreements that bring substantial staff involvement from the awarding agency. Such involvement may include participation in protocol design, data collection and analysis, approval of project stages, or coordinating or providing training to grantee staff.

U.S. Department of the Treasury

Short-to-Mid Term

CDFI Fund Technical Assistance

The CDFI Fund offers both Technical Assistance (TA) and Financial Assistance (FA) awards to CDFIs. Emerging CDFIs who are not yet certified can apply for up to three TA awards before obtaining their CDFI certification. No matching funds are required to receive the TA award, which can range from approximately \$10,000 to \$125,000 and go toward capacity-building activities to help the organization achieve CDFI certification. Eligible uses for these grant funds include compensation for personnel services or fringe benefits, professional service costs, travel costs, training and education, equipment, and supplies. This is one of the few federal sources of funding that can be used toward operational capital needs.

The U.S. Department of the Treasury is revising the application and reporting requirements for CDFIs, and the CDFI Fund will resume accepting new CDFI certification application submissions on April 3, 2023.

CDFI Fund Financial Assistance

Financial Assistance (FA) awards are made to certified CDFIs in the form of loans, grants, equity investments, deposits, and credit union shares. Awards can be used for financial products, loan loss reserves, and development services. FA awards could be used to help Prosper Portland create small business loan programs or other community investment programs to meet the organization's equity goals. Applications must demonstrate a 1:1 match with non-federal sources to receive an award.

U.S. Environmental Protection Agency (EPA)

Short-to-Mid Term

Brownfields Assessment Grants

Assessment Grants provide funding for recipients to inventory, characterize, assess, conduct a range of planning activities, develop site-specific plans, and conduct community involvement related to brownfield sites. There are three types of assessment grants: community-wide, site-specific, and assessment coalition. Community-wide Assessment Grants are when a specific site is not identified and applicants plan to spend grant funds on more than one brownfield site in the community. The maximum funding amount for Community-wide Assessment Grants is \$300,000.

Alternatively, applicants may apply for a Site-Specific Grant, which is appropriate when a specific site is identified and will be the only site on which grant funds are spent. The maximum funding amount for Site-specific Assessment Grants is \$200,000.

Finally, Assessment Coalition Grants are designed for one "lead" eligible entity, like Prosper Portland, to partner with two or more eligible entities that have limited capacity to manage their own EPA cooperative agreement. Applicants may request up to \$600,000 for an Assessment Coalition Grant.

Applications for FY2023 closed on November 22, 2022, but Prosper Portland can prepare for a similar due date in 2023 for FY2024 project funding.

Brownfields Revolving Loan Fund Grants

Revolving Loan Fund (RLF) Grants provide funding for grant recipients to capitalize a revolving loan fund and to provide loans and subgrants to execute cleanup activities at brownfield sites. Applicants may apply as an individual applicant or as an RLF coalition and request up to \$1 million in funding with a performance period of 5 years. RLF programs are designed to operate for many years, even decades, which can provide Prosper Portland with an ongoing source of capital. Prosper Portland's expertise in real estate financing and principles makes it an ideal applicant for the FY2024 funding cycle. Additionally, Prosper Portland has had previous success in applying for brownfields grants.

Applications for FY2023 closed on November 22, 2022. Prosper Portland can anticipate a similar due date in 2023 for FY2024 project funding.

Greenhouse Gas Reduction Fund

The Inflation Reduction Act appropriated \$27B under the Greenhouse Gas Reduction Fund (GGRF), of which \$7B is directly allocated to jurisdictions, including municipalities. These funds can be used for providing grants, loans, other forms of financial assistance, or technical assistance to enable low-income and disadvantaged communities to deploy or benefit from zero-emission technologies and to administer other greenhouse gas reduction activities.

Another \$12B was appropriated to make competitive grants to eligible recipients for direct and indirect investment for qualified projects at the national, regional, state, and local levels. The provision prioritizes investment in projects that would otherwise lack access to financing. Entities that receive funding are permitted to retain, manage, recycle, and monetize all repayments and other revenue received from fees, interest, repaid loans, and other types of financial assistance provided using grant funds. Finally, another \$8B was appropriated for competitive grants for providing financial and/or technical assistance in low-income and disadvantaged communities.

The EPA has yet to announce application criteria or program regulations, but it is required under the Act to begin making awards from the GGRF by mid-February. Prosper Portland is an eligible recipient and should prepare for that process now by identifying potential local projects suited for investment or envisioning a potential financing program that could be capitalized with GGRF funds.

U.S. Department of Agriculture (USDA)

Mid-Term

Urban Agriculture and Innovation Production Competitive Grants

These grants are divided into two categories: Planning Projects and Implementation Projects. Planning Project grants can be used to initiate or expand efforts of farmers, gardeners, citizens, government officials, schools, and other stakeholders in urban areas and suburbs and may target areas of food access, education, business and start-up costs for new farmers, and development of policies related to zoning and other needs of urban production.

Implementation projects accelerate existing and emerging models of urban, indoor, and other agricultural practices that serve multiple farmers, improve local food access, and collaborate with partner organizations. Projects may support infrastructure needs, emerging technologies, educational endeavors, and urban farming policy implementation.

The American Rescue Plan Act of 2021 provided \$14 million in funding for the grants through FY2022, of which the minimum award for both grants is \$50,000 and the maximum is \$300,000. The USDA's Natural Resources Conservation Services is the awarding agency for the grants.

The Urban Agriculture and Innovation Production Competitive Grant would continue to advance Prosper Portland's recent work on the Equitable Food Economy Collaborative.

U.S. Department of Housing and Urban Development (HUD)

Mid-Term

Choice Neighborhoods Implementation Grant Program

The program leverages significant public and private dollars to support locally driven strategies that address struggling neighborhoods with severely distressed public housing or HUD-assisted housing through a comprehensive approach to neighborhood transformation. Local leaders, residents, and other stakeholders come together to create and implement a plan to revitalize distressed or HUD housing and address the challenges in the surrounding neighborhood. The program is focused on three core goals: to replace severely distressed public and assisted housing with high-quality, mixed-income housing that is well-managed and responsive to the neighborhood's needs; to improve outcomes of households living in the target housing related to income and employment, health, and education; and to create the conditions necessary for public and private investment in distressed neighborhoods to offer the kinds of amenities and assets that are important to families' choices about their community.

The program is administered by the Office of Public and Indian Housing. Applications for FY2022 are due January 11, 2023, but Prosper Portland should be prepared for FY2023 program funding applications to be due at a similar time.

Federal Highway Administration

Mid-Term

Neighborhood Access and Equity Grant Program

The Inflation Reduction Act appropriated approximately \$1.9B to the Federal Highway Administration (FHA) for competitive grants to improve walkability, safety, and affordable transportation access; to mitigate or remediate negative impacts on the environment; or for planning and capacity building in disadvantaged or underserved communities. In addition, \$1.2B was appropriated for grants for projects specifically in economically disadvantaged communities. Prosper Portland is eligible to apply for the program.

The FHA has not yet released application guidance for the program, but it likely will be administered similarly to the Reconnecting Communities Pilot Program established in the Infrastructure Investment and Jobs Act. Under that program, eligible entities could apply for planning, technical assistance, or capital constructing grants.

Prospective Budget

The following chart outlines a three-year projection of sources of grant funding and costs for hiring a full-time Grants Manager. Pursuing Technical Assistance Grants in 2023 and 2024 would cover part or all of the personnel costs for this position, allowing time to establish a CDFI and develop a thorough strategy for acquiring federal grants. After becoming certified as a CDFI, Prosper Portland would be able to apply for financial awards to build out additional lending programs. Adopting this approach creates a transition period for the Grants Manager to apply for and secure additional funds. This time can also be used to establish a federal grants strategy so that Prosper Portland is positioned to pursue opportunities as they are announced.

Year	Uses	Sources	Amount
2023			
	Prosper Portland Grants Manager Salary + Benefits		\$110,000 - \$130,000
		CDFI Fund Technical Assistance Grant	\$10,000 - \$125,000
		Technical Assistance to Brownfields Communities Grant	\$5,000,000 (over 5 years)
		Greenhouse Gas Reduction Fund	TBD
2024			
	Prosper Portland Grants Manager Salary + Benefits		\$110,000 - \$130,000
		CDFI Fund Technical Assistance Grant	\$10,000 - \$125,000
		Greenhouse Gas Reduction Fund	TBD
		Environmental Justice Collaborative Neighborhood Access and Equity Grant Program	TBD
2025			
	Prosper Portland Grants Manager Salary + Benefits		\$110,000 - \$130,000
		CDFI Fund Financial Assistance Grant	\$2,000,000
		Environmental Justice Collaborative Neighborhood Access and Equity Grant Program	TBD

Section C: Staffing Considerations

One of the key objectives of this report is to assess the need for additional staff at Prosper Portland who would be focused solely on applying for and managing federal funding opportunities. CDFA used a qualitative cost-benefit assessment paired with an analysis of potential funding to inform the final recommendation and included a set of best practices that would increase the net benefit of creating this new position.

Cost-Benefit Analysis

Based on the available federal grant and loan programs that align with the organization's capital needs, priority areas, and need for flexible funds, CDFA recommends creating a new full-time position for a Grants Manager. Hiring this position and pursuing CDFI certification in the immediate term would enable Prosper Portland to apply for a Technical Assistance (TA) award from the CDFI Fund, which is eligible to use for personnel and benefits for up to three years in support of the organization applying for certification.

This would position Prosper Portland to take advantage of funding opportunities as they arise and build a more proactive approach to pursuing grants. A dedicated full-time staff member would be responsible for tracking new funding announcements across federal agencies and reviewing notices of funding to assess the suitability of each. This person would have the capacity to share each grant opportunity with the relevant departments at Prosper Portland and coordinate with the team internally. For collaborative projects, the Grants Manager would engage potential external partners, communicate with them throughout the application process, secure the necessary materials, and work with Prosper Portland staff to establish terms of the partnership.

Having a full-time Grants Manager would also allow the organization to pursue longer-term grant funding strategies in partnership with other regional entities, where a significant amount of planning and coordination goes into the preparation for applying for a grant. Prosper Portland could act as the lead applicant on grants with multiple sub-recipients, directly applying for funds and sub-granting to project partners to bring resources to the region. Developing these relationships opens the door for pooled match contributions or leveraging that would otherwise be unavailable.

This cost-benefit analysis of creating a Grants Manager position is based on strategic decisions made by Prosper Portland leadership about the purpose of such a role. The Grants Manager would focus on funding opportunities pertaining to existing priorities, taking care to avoid 'mission creep' away from the organization's cornerstones of growing family-wage jobs, advancing opportunities for prosperity, collaborating with partners for an equitable city, and creating vibrant neighborhoods and communities. Emphasis on the current areas of business would help the Grants Manager work more efficiently as well, rather than shifting into project areas and spreading themselves too thin.

The alternative for pursuing federal grants would be to hire a consultant organization to apply for federal dollars on behalf of Prosper Portland. Although this would likely be a less expensive option in terms of evaluating the cost-benefit for applications, having a Grants Manager on staff full-time would add capacity beyond securing funding and serve as an intellectual investment for Prosper Portland. By monitoring opportunities and evaluating eligibility, the organization would be better positioned to apply

for suitable funding aligned with its mission and programs. This person also fulfills the more taxing administrative component of managing grants after the funds are received, which should not be passed down to program staff with other responsibilities.

CDFA recommends that Prosper Portland commit to hiring a full-time Grants Manager for at least a two-year period with funds secured for a combined compensation between \$110,000 and \$130,000 annually, depending on their expertise. The person hired must have excellent written and verbal communication skills; an ability to work independently and coordinate across departments or organizations; 3-5 years experience in grant writing and/or management; familiarity with federal grants; strong project management skills, including planning and budgeting; a high level of organization and strong attention to detail; and the ability to multitask and prioritize in a deadline-driven environment.

This position should be created and posted for hiring in Q1 of 2023 in order to take full advantage of anticipated funding opportunities. Many federal grants have application deadlines in the June-July time frame to make funding decisions by the end of the federal fiscal year on September 30. CDFA's assessment of suitable federal funding estimates that Prosper Portland is likely to secure an average of \$1 million to \$2 million annually to fully compensate for the creation of the Grants Manager position.

Best Practices

The following best practices should be used to improve the cost-benefit outcomes of hiring a full-time Grants Manager, increasing the likelihood of winning an award and the efficiency of administering secured funding.

Build Partnerships

Prosper Portland has a well-established history of partnering with other planning and economic development agencies to support its mission. The organization should continue its current shift toward making these partnerships more sustainable by agreeing on a negotiated rate for a share of funding that compensates the organization's staff time, where another entity is the primary recipient of funding. Such partnerships can help leverage additional funds on a specific deal or can help fulfill a match requirement for access to federal funding. Both city and county-level collaborations could offer this, as well as state-level partnerships with Business Oregon.

Connect with Local Agency Offices

The Grants Manager would benefit from building ongoing relationships with federal agencies, both at the headquarters offices in Washington, DC and in local or regional offices. Having direct contact with regional staff serves as a way to learn about funding opportunities that might be a good fit for the organization. Such relationships can also be beneficial because staff at the regional level are able to offer guidance or insights about application ideas, letting the Grants Manager know the suitability of a project or program for a given grant, and improving the chances of receiving funding after applying.

Establish Consistent Management

Having a full-time team member at Prosper Portland who is focused on grant writing and administration would provide essential consistency for managing federal grants. Ideally, the person who writes a grant application is also the person who is responsible for the long-term management and reporting if funds are awarded. This helps avoid miscommunication about deliverables and metrics, creates the structure

of establishing consistent record-keeping across the life of the grant, and ensures that there is one individual internal to the organization dedicated to managing deadlines and closing out a grant. The more experience that Prosper Portland develops in securing and successfully fulfilling federal grant funds, the more likely they are to remain in good standing for future funding opportunities.

Diversify Sources

It will be feasible for Prosper Portland to diversify its federal funding strategy with a full-time team member dedicated to identifying, evaluating, and applying for a variety of grant opportunities, rather than drawing on staff hours from across the organization to compile a single large application. The Grants Manager should monitor across multiple federal agencies while remaining focused on supporting or expanding existing programmatic activity. This position can make strategic choices to pursue both highly competitive and more accessible sources of funding as another diversification approach that is possible with a dedicated team member. The Grants Manager would also be expected to consider state and local government funding options, as well as national private philanthropic sources of grant dollars.

Complement the Financing Landscape

Prosper Portland must place a strong emphasis on being complementary to other CDFIs in order to pursue CDFI certification as a funding and programmatic strategy. The goal of being a certified CDFI is not to compete with the existing landscape of lenders, but rather to address gaps and support the local lending ecosystem. This approach will unlock sources of capital for Prosper Portland that can support staffing needs for applying to certification in the near term and programmatic needs for expanding the organization's loan offerings in the long term.



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Financial Investment Policy

Effective Date: March 8, 2023

Approved By: Prosper Portland Board of Commissioners

Sponsor: Chief Financial Officer

Owner: Chief Financial Officer

This amended Policy was approved by the Prosper Portland Board of Commissioners (the “Board”) through Resolution No. 7477, adopted March 8, 2023 (the “Authorizing Resolution”). This Policy is organized as follows:

- PART ONE:** Goals of Policy
- PART TWO:** Financial Investment Principles
- PART THREE:** Committee for Accountability of Finance and Equity (CAFÉ)
- PART FOUR:** Applicability
- PART FIVE:** Modifications; Authority of the Executive Director
- PART SIX:** Charter; Administrative Procedures and Specifications

PART ONE: GOALS OF POLICY

The Board’s goals in adopting this Policy are to ensure that proposed investments are appropriately reviewed to minimize risk, maximize public benefits, ensure the agency’s equity and other policies are being followed, and facilitate the repayment of public funds and a financial return on investment. The Board further wishes to provide a level of review based on the size and risk profile of the applicable investment in order to ensure that internal processes are streamlined and efficient.

This Policy is informed by, and intended to further, the goals and principles of Prosper Portland’s Equity Policy, established through Resolution No. 7335, adopted August 14, 2019 (the “Equity Policy”).

PART TWO: FINANCIAL INVESTMENT PRINCIPLES

Prosper Portland shall abide by the following principles when investing Prosper Portland resources:

- When investing public resources to achieve its mission and strategy, Prosper Portland will apply sound financial guidelines and accountable and transparent processes.

- In alignment with the Financial Sustainability Plan, investments should result in asset ownership or a financial return of and on capital whenever feasible.
- The agency will maintain a “Strategic Investment Fund” as follows:
 - Uncommitted program income will be transferred into this fund.
 - Operating properties, when stabilized, will be transferred into this fund.
 - Fund balances will be used for income generating activities, operational, and capital needs only.
 - Grants and infrastructure are not allowable uses for this fund.
 - The fund shall be managed and administered to address community and small business needs through the following citywide activities and in alignment with the agency’s charter and mission:
 - Business and commercial property lending;
 - Commercial, mixed-use, and industrial real estate acquisitions; and
 - Renovation and improvement to existing revenue generating properties to improve service to community and responsibly manage public assets.
- In alignment with the Equity Policy, investments should seek public benefits and be managed in a manner that explicitly considers beneficiaries, addresses disparities, and supports equitable outcomes.
- Investment should have a leverage target that maximizes the percentage of non-Prosper Portland resources in a project.
- Grants and infrastructure expenditures should be limited to annual Prosper Portland-wide budgets that are consistent with Prosper Portland’s Financial Sustainability Plan Update.
- Any forgiveness of loan principal will be considered a grant and count against the current or following fiscal year budget established for grants.

PART THREE: COMMITTEE FOR ACCOUNTABILITY OF FINANCE AND EQUITY (CAFÉ)

- 3.1 CAFÉ.** The Executive Director is directed to maintain an internal Committee for Accountability of Finance and Equity (“CAFÉ”). CAFÉ shall have at least three members to be appointed by the Executive Director in consultation with the Board Chair.
- 3.2 Responsibilities of CAFÉ.** CAFÉ is responsible for reviewing Covered Investments (defined in Part Four) and making recommendations with respect to the Covered Investments to the Executive Director.
- 3.3 Considerations.**
- CAFÉ shall consider the Equity Policy, other applicable policies and procedures, applicable loan or grant guidelines, and other relevant policies, procedures, and considerations in making its recommendations. As described in Part Six, CAFÉ’s Charter should include a list of potentially relevant policies and procedures for CAFÉ’s reference, but this list should not be construed as a limitation.
 - In recommending exceptions to applicable policies, procedures, or guidelines, CAFÉ should conduct reasonable inquiries regarding whether the exceptions are reasonably necessary to meet agency objectives and goals and do not jeopardize program objectives.

PART FOUR: APPLICABILITY

- 4.1 Covered Investments.** The following types of investments are “Covered Investments” for purposes of this Policy:
- Loans and grants for any financial assistance programs where approval has not been delegated by the Executive Director;

- Loan modifications where approval has not been delegated by the Executive Director;
- New and revised financial assistance guidelines;
- Prosper Portland debt financings;
- Acquisition, disposition, and leasing of real property; provided that, as set forth in the Disposition and Leasing of Real Property Policy, adopted by Resolution No. 7301 on February 13, 2019, leases, licenses, or permits of entry for real property with a term of less than two (2) years is not a Covered Investment requiring CAFÉ review;
- Acquisition of real property collateral (by foreclosure, deed in lieu of foreclosure, or voluntary transfer);
- Special authority grants or loans where no formal program exists; and
- Additional responsibilities delegated by the Prosper Portland Board and/or the Executive Director

4.2 Exceptions. Notwithstanding the foregoing, CAFÉ may develop exceptions or exclusions to the definition of Covered Investments to be set forth above in its Charter (as defined in Part Six) to further the goals of streamlined and efficient internal processes as set forth in Part One. Examples of these exceptions or exclusions could include, by way of example and not limitation, developing minimum dollar thresholds for full CAFÉ review, or exempting loans or grants meeting all established guidelines from full CAFÉ review. The Executive Director has the authority to accept or reject these proposed exceptions or exclusions.

PART FIVE: MODIFICATIONS; AUTHORITY OF THE EXECUTIVE DIRECTOR

5.1 Policy. This Policy may be amended only by the Board; provided that Part Six sets forth a means by which Prosper Portland staff may adopt a Charter, administrative procedures, and other guidance to operationalize and/or clarify this Policy as needed.

5.2 Authority of Executive Director.

- Pursuant to Resolution No. 6172, adopted August 11, 2004, and Resolution No. 6214, adopted December 9, 2004, the Executive Director has the authority to execute grant agreements, loan agreements, procurement contracts, intergovernmental agreements, and other documents involving Prosper expenditures of up to \$500,000 without further Board approval. This Policy does not limit this authority, but rather clarifies the internal review process before certain of these financial commitments (i.e., Covered Investments as defined in Part Four) may be made.
- Without limiting the preceding paragraph, after review by CAFÉ, the Executive Director may make any exceptions to adopted loan or grant guidelines, consistent with applicable law, except for (a) the maximum loan or grant amount set forth in the guidelines, or (b) any reduction in the repayment obligation of a borrower of more than \$500,000.
- Nothing in this Policy prevents the Executive Director from sub-delegating or providing rules for sub-delegation of expenditure authority to other Prosper Portland employees.

PART SIX: CHARTER; ADMINISTRATIVE PROCEDURES AND SPECIFICATIONS

6.1 Charter. The Executive Director (or their designee) is directed to develop a charter for CAFÉ (the “Charter”) setting forth, among other things, membership, roles and responsibilities, how CAFÉ is to conduct business, applicable organizational policies and guidelines expected to frequently recur in CAFÉ meetings (for example, commonly-applicable loan and grant guidelines; rules regarding appraisal or other valuation methods, as currently set forth in the Valuation of Real Property policy adopted by Resolution No. 7301; and so forth), and exceptions or exclusions to the definition of Covered Investments as described in Part Four of this Policy.

6.2 Administrative Procedures; Specifications. The Executive Director (or their designee) may review and revise other administrative procedures or specifications of this agency if necessary or appropriate to reconcile the other procedures or specifications to this Policy.



**PROSPER
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RESOLUTION NO. 7477

RESOLUTION TITLE:

ADOPTING AN UPDATE TO THE PROSPER PORTLAND FINANCIAL SUSTAINABILITY PLAN AND AUTHORIZING AN AMENDMENT TO THE PROSPER PORTLAND FINANCIAL INVESTMENT POLICY

Adopted by the Prosper Portland Commission on Marach 8, 2023

PRESENT FOR VOTE	COMMISSIONERS	VOTE		
		Yea	Nay	Abstain
<input checked="" type="checkbox"/>	Chair Gustavo J. Cruz, Jr.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	Commissioner William Myers	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	Commissioner Peter Platt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input checked="" type="checkbox"/>	Commissioner Sam Rodriguez	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	Commissioner Serena Stoudamire Wesley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/> Consent Agenda		<input checked="" type="checkbox"/> Regular Agenda		

CERTIFICATION

The undersigned hereby certifies that:

The attached resolution is a true and correct copy of the resolution as finally adopted at a Board Meeting of the Prosper Portland Commission and as duly recorded in the official minutes of the meeting.

	Date: March 9, 2023
Pam Feigenbutz, Recording Secretary	