



PROSPER
PORTLAND
Building an Equitable Economy

DATE: April 10, 2024
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 24-13
Update on the Fiscal Year 2024-25 Budget Development Process

BRIEF DESCRIPTION OF INFORMATION ITEM

No action is requested; information only.

At the April 10, 2024, Prosper Portland Board of Commissioners (Board) meeting, staff will provide an update on the fiscal year (FY) 2024-25 Proposed Budget (Proposed Budget). After Prosper Portland Board input and direction, staff will finalize the Proposed Budget in April and present to the Portland City Council (City Council), acting as the Prosper Portland Budget Committee, on May 7, 2024. City Council is expected to approve the Proposed Budget on May 15, 2024. Staff will seek the Prosper Portland Board's adoption of the City Council-approved Proposed Budget at its June 21, 2024, meeting.

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

Development of the FY 2024-25 Proposed Budget delivers on multiple Advance Portland objectives. Outcomes related to budgeted projects and programs will be measured over time to determine how Prosper Portland's allocation of resources implement Advance Portland and the agency's ongoing efforts to build an equitable economy.

BACKGROUND AND CONTEXT

The Prosper Portland FY 2024-25 budget development process began in fall 2023. From November 2023 through January 2024, staff created draft expenditure budgets and revenue forecasts that the Prosper Portland Board reviewed during the FY 2024-25 Budget Work Session on February 1, 2024.

To solicit feedback on the draft budget, staff convened its 14-member Community Budget Committee (CBC) with stakeholders representing a broad cross-section of the community. CBC members participated in meetings through January that culminated with the CBC articulating its recommendations in a letter to the Prosper Portland Board and City Council that was included in the FY 2024-25 Requested Budget submitted at the end of January.

Consistent with City of Portland budget direction, the General Fund Budget was created with a five percent constraint and the Cannabis Tax Fund ongoing funding was reduced by 22 percent based on the latest forecast by the City Budget Office. Prosper Portland submitted a decision package for \$7.6 million consistent with the FY 2022-23 Budget Note adopted by City Council that directs returning TIF resources to Prosper Portland and the Portland Housing Bureau. The decision package provides operating resources to sustain existing economic development programming as funding from existing TIF districts expire and provides operational support for the new Strategic Investment Fund and other citywide programs.

In addition to soliciting CBC feedback, Prosper Portland staff conducted broader stakeholder review of the FY 2024-25 Requested Tax Increment Finance (TIF) District Budgets focusing on business associations, neighborhood groups, and other community-based organizations; a letter from the Old Town Community Association can be found in Attachment A.

Since its release in February, the Requested Budget has been reviewed by the City Budget Office; a copy of this review can be found in Attachment B. On February 13, 2024, Prosper Portland staff participated in a City Council budget work session as part of the Community Development service group with the Portland Housing Bureau, Bureau of Planning and Sustainability, and Bureau of Development Services (see the presentation in Attachment C). The work session focused on priorities in the coming year, key budget changes, the returning TIF decision package, and the impacts of the constraint reductions in General Fund and Cannabis Fund budgets.

Staff are currently engaged in making refinements to revenue and expenditure estimates originally included in the FY 2024-25 Requested Budget that will be presented to City Council as the Proposed Budget on May 7, 2024. Prosper Portland's Proposed Budget will also incorporate any changes to assumptions in General Fund and Cannabis Fund programming based on Mayor Wheeler's Proposed Budget that will be released in late April. Anticipated changes in the Prosper Proposed Budget are as follows:

- 1) **TIF District Budget Updates.** Staff are currently reviewing necessary changes to:
 - a. Adjust TIF district budgets for specific projects and programs, primarily for specific input received from stakeholder groups and general timing of projects.
 - b. Updates on real estate management budgets including insurance, security and other holding costs.
- 2) **Update Prosper Portland's General Fund, Cannabis Fund, and American Rescue Plan Fund resources and expenditures to reflect the Mayor's Proposed Budget decisions.** Direction will not be released by the Mayor's Office until the end of April and therefore potential changes are unknown at this time. Any changes proposed in the Mayor's budget will be incorporated into Prosper Portland's Proposed Budget.
- 3) **Adjustments to staffing and administrative overhead budgets.** Refinements include adjusting estimated staffing costs and administrative materials and services budgets based on updated information since the Prosper Portland Board Budget Work Session in February. No major changes are currently included, however, there are some updated administrative costs being included for insurance and other operations that may slightly increase overhead allocations.

Following City Council approval of the FY 2024-25 Requested Budget on May 15, 2024, the budget will be submitted to the Tax Supervising and Conservation Commission (TSCC) to review and determine compliance with local budget law. Final changes approved by City Council will be presented along with final recommended changes for the Prosper Portland Board to adopt following the TSCC hearing with the Prosper Portland Board on June 18, 2024.

ATTACHMENTS

- A. Letter from Old Town Community Association
- B. City Budget Office Review of the Requested Budget
- C. City Council Work Session Presentation, February 13, 2024



Background

Prosper’s Portland purpose is to spur development in areas where private investment cannot succeed on its own. These Urban Renewal Areas (URAs) have been designated to receive the Tax Increment Financing (TIF) dollars from Prosper Portland. The Old Town/Chinatown neighborhood has long been designated a URA, and 10 years ago had \$56M committed to its renewal.

Nine years later, \$36M remains, with roughly 9 months remaining before the TIF district, and the a action plan that guide the funds use, expires. We appreciate the engagement from Prosper Portland with the OTCA board over the last 18 months to optimize the use of these funds to create short, medium, and long term investment in the neighborhood. The goal is that the investments of these public dollars spur sustainable private investment dollars- to finally balance the economic needs of the neighborhood (see ECONorthwest study, 2020)

OTCA Perspective on Needs

The board of the OTCA is comprised of industry experts in real estate development, cultural preservation, business development, housing and more. In a survey, of our board members, the optimal use of our remaining funds was found to be:

OTCA Proposed		
Short Term (<1 yr impact)	Medium Term (1-3 yr impact)	Long Term (3+ yr impact)
9%	23%	68%
\$3,298,948	\$8,430,646	\$24,925,388

Current Prosper Portland Track		
Short Term (<1 yr impact)	Medium Term (1-3 yr impact)	Long Term (3+ yr impact)
5%	18%	77%
\$1,832,749	\$6,597,897	\$28,224,336

Based on our experience on the ground, as well as the study completed in 2020 by ECONorthwest, our greatest need is market-rate housing. We currently have only 57 units in the Old Town boundaries. Workforce and market-rate housing means more people who live and work in the district, and can support ground-level retail services. In the pandemic, cities and neighborhoods with more dense housing suffered fewer economic impacts, and recovered faster. As an example in Portland, the Pearl and Nob Hill fared better than downtown and Old Town, who have fewer market rate tenants.



Additional funds should be spent on smaller-scale development such as tenant-improvements, including destination creation (Steel Bridge Skate Park, Creative Homies), and conversion to housing (Falcon building, other proposals). Finally, a smaller percentage of funds should be used to sustain existing businesses, streetscape projects, activation, and the OTCA staffing and mission.

Long-Term (Housing) Project Proposed Criteria

So, the bulk of the longer term investment should focus on building market rate housing, but care should be taken to balance an incentive for developers while maximizing the number of projects. The OTCA proposes the following additional criteria for approval for these projects:

- Using 68% of remaining \$36MM funds to create 3 major housing projects
- Highest density of market-rate housing possible on available land (prefer higher FAR projects and smaller unit sizes)
- All projects should be focused on market rate (60 AMI or higher) units
- Developers should be motivated and organized- able to reach agreement on term sheet by 3/31/24*
- Projects should be shovel-ready- buildable in 3 years
- Prosper Portland should provide land to developers at minimal to no cost, (where PP owned), as funding from \$56MM fund was already used to purchase these lots
- Total Prosper Portland funding (loans + grants) should not exceed 50% of verifiable hard costs (construction costs) actually spent

*If term sheets are not received by 3/31/24, the Prosper Portland owned sites should go through a new RFP process. The funds currently designed for this site should go back into the Old Town TIF funds and used according to the goals and criteria set in this document.

Medium Term Priorities

Mid-term projects should be easier office-to-housing conversion projects, or destination-creation, mainly using the Commercial Property Redevelopment Loan product (CPRL). Examples include tenant-improvements at the Enterprise Building, a housing conversion project at Falcon Building, and other proposed housing conversion projects. The OTCA would like to see a higher percentage of overall funds go this tool.

Short Term Priorities

Our businesses and cultural institutions have been most acutely impacted by the pandemic, and most have not yet recovered to 2019 levels of economic activity, due to fewer residents, workers, and tourists visiting the district. We must support these businesses as the TIF districts and we wait for a new TIF district. Critical program funds to support the streetscape (PIP, Chinatown Gate, Steel Bridge Skate Park), activations (OTCA events + staffing), and building grants (PIP program) should be budgeted to last 3 more years.



Proposed Adjustments to Budget Priorities

Term	Use	PP Budgeted	%	OTCA Proposed	%
Long Term	4th + Burnside			\$ 7,000,000	19.3%
Long Term	Block 24	\$ 28,057,897	77.4%	\$ 10,000,000	27.6%
Long Term	Block 25			\$ 8,000,000	22.1%
Long Term	Other			\$ 0	0.0%
Medium Term	Fire Station			\$ 233,789	0.6%
Medium Term	CPRL	\$ 6,140,000	16.9%	\$ 7,164,545	19.8%
Short Term	PIP	\$ 568,000	1.6%	\$ 1,168,000	3.2%
Short Term	Chinatown Gate	\$ 300,000	0.8%	\$ 300,000	0.8%
Short Term	SB Skate Park	\$ 250,000	0.7%	\$ 1,000,000	2.8%
Short Term	Lanterns		0.0%	\$ 500,000	1.4%
Short Term	OTCA	\$ 272,000	0.8%	\$ 872,000	2.4%
Short Term	Unallocated	\$ 416,648	1.1%	\$ 0	0.0%
TOTAL		\$ 36,238,334		\$ 36,238,334	

Explanation for Proposed Adjustments:

- **Adjust investments on PP-owned blocks.** 4th + Burnside, with 30,000sf total buildable space, cannot support as many units at Block 24 or Block 25. Adjust funding to get 3 projects, proportional to housing units built, with some additional funding for a Chinese Heritage center on Block 24.
- **Donate Land on all Prosper-Owned Lots.** Land has already been purchased using TIF district funds. Do not use TIF funds to pay for the land twice (make developer pay for it). This allows for less funding per project, making space for a 3rd major project.
- **Add money to CPRL budget.** Timing is good with new office-to-housing incentives from the city. The CPRL funding can support a few smaller projects and add more housing sooner
- **Provide Catalyst Funding for The Steel Bridge Skate Park.** This is a \$10-\$15MM project, but allocating up to a \$1MM now, will help galvanize support from the city to use SDC funds(\$10MM+), as well as encourage private investment dollars (\$1MM)
- **Provide funding for permanent lantern project** Placemaking for Chinatown / Japantown is important to ensure that district retains critical cultural identity, and improves the public space.



- **Augment the PIP program for 3 additional years at \$200,000 per year.** This will provide critical support to update/sustain businesses + non-profits in the district as we recover.
- **Support the OTCA for 3 additional years at \$200,000 per year.** This will provide critical continuity for the OTCA staffing, which provides business support, leasing, and activation with events.

In summary, this plan balances short, medium and long term investments in this district, all intended to stabilize existing buildings/businesses and attract new private capital to the district.

Please consider these adjustments to the Prosper Portland budget to better align with the community's recommendations. We are available to meet and discuss at any time.

Kindest Regards,

Old Town Community Association
Board of Directors

Jessie Burke
Chair, CEO, The Society Hotels, Owner, Equity Development Lab

Scott Kerman
Vice-Chair, Executive Director, Blanchet House of Hospitality

Phil Lundberg
Secretary, President, Oregon College of Oriental Medicine

Jonathan Cohen
Treasurer, Owner, Equity Development Lab, CFO, The Society Hotels

Mitchell Menashe
Vice President, MRA Investments

Mary-Rain O'Meara
Senior Director of Community Development, Central City Concern

Barbara Jacobsen
Resident, Plaintiff in ADA Lawsuit against City of Portland for sidewalk access

Matt Roberts
Vice Provost, University of Oregon

Jenny York
Resident, NWNW Board Member

Dan Lenzen
Owner, Dixie Tavern

Tom Clark
Consulting Principal, Clark/KJOS Architects

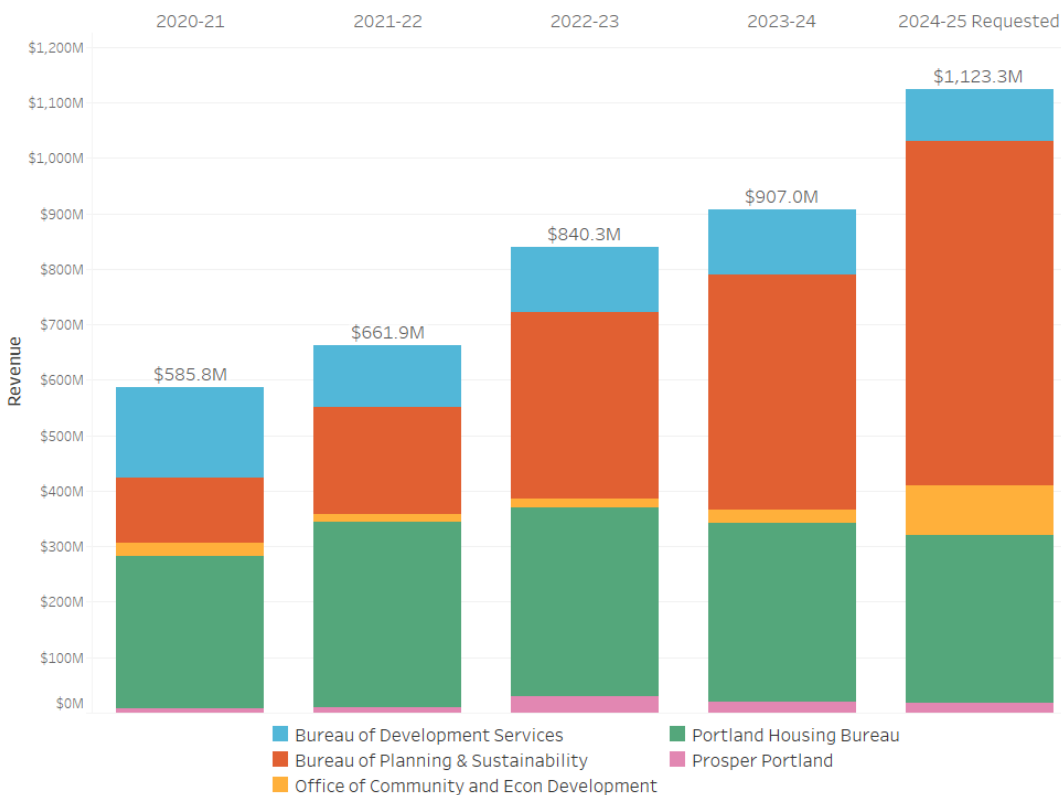


Community & Economic Development Service Area

SERVICE AREA SUMMARY

Service Area Overview

Adopted Budget by Fiscal Year | 5-Year Lookback



Community and economic development is a local economic development approach that aims to create and sustain communities with opportunities for everyone. As a result, the bureaus in this service area are driven by the Portland community's and the City's social, environmental, and economic priorities. With a separate board of commissioners, Prosper Portland is the city's economic development agency, while the Spectator Venues program manages the sports and performance venues that generate income for the City. The Bureau of Development Services regulates the development and construction of buildings and homes, with the Housing Bureau's mission dedicated to developing and preserving affordable housing and supporting low-income homeowners and homebuyers. The Bureau of Planning and Sustainability provides the overall planning framework for the other bureaus to fulfill their missions in a sustainable manner.

Key Takeaways

- The Mayor’s guidance for the FY 2024-25 budget development process includes a directive to the **Bureau of Development Services** to provide policy options for addressing the bureau’s projected deficit that minimizes impact on permitting timelines as well as options to address a worse-than-projected scenario. Development Services has responded by noting that it and other permitting bureaus are working to identify sustainable funding solutions that support the operational and staffing needs of the Single Permit Authority without exacerbating the City’s fiscal pressures. However, the bureau also proposed General Fund assistance and increasing fees to developers to support operations and prevent (or delay) additional layoffs. There are two decision packages requesting additional General Fund resources for the Single Permitting Authority (SPA) effort. One involves one-time funding for the second year of work by the Permit Improvement Team to continue its implementation of SPA and the other is for ongoing resources for the additional positions of the SPA itself. CBO recommends using continued General Fund one-time resources to support the Permit Improvement Taskforce team for one more year while the Single Permitting Authority (SPA) is created. However, CBO recommends against other General Fund resources going to the new SPA or Development Services at this time based on the lack of available funding. A recent Executive Directive issued by the Mayor tasked CAO Michael Jordan and the CBO to form a work group to recommend options for funding startup and ongoing operational costs for the new Single Permit Authority. Findings of the group are to be presented in conjunction with the process for developing the Proposed Budget.
- Over the past four years, Development Services has seen increasing expenses and declining revenues, which has required the bureau to draw from its reserves that it had built up for this purpose. As a result, the reserves are already significantly lower than at their peak in FY 2018-19. In fall 2023, the bureau implemented a hiring freeze and began laying off employees. CBO recommends that as the City consolidates citywide permitting functions in the Single Permitting Authority, the new service area conducts a careful analysis of Development Services’ current reserve policy and business continuity plan to determine what changes need to be made to account for future economic cycles as well as a larger permitting function and staff that have historically been supported by a mix of revenue.
- Both **Prosper Portland** and the **Portland Housing Bureau (PHB)** have been relying on Tax Increment Financing (TIF) as a significant source of revenue. TIF as well as other bureau-specific funding, such as housing bond revenues, are declining significantly over the next several fiscal years. This review assesses the two bureaus’ financial models and plans, including potential new or additional funding streams such as funding from new TIF districts and General Fund resources that are returning to the City due to the expiration of the previous TIF districts. The two bureaus’ Requested budgets also have funding requests for this General Fund revenue that has been placed in a set-aside for them. CBO recommends for these decision packages, but notes that the budget note that created the policy set-aside for returning TIF required the completion of an evaluation of TIF districts, which will be presented to City Council in the spring. In addition, CBO notes that these large allocations are being made to the two bureaus when there are other pressing City requirements in FY 2024-25.
- Considering the reduction in TIF revenues, as well as an expiration of housing bond revenues, **Housing Bureau** projects that it will reduce multi-family project gap financing, acquisition, and homeownership programs. Homeownership programs will be heavily impacted, losing as much as two-thirds of the funding they had when these programs’ TIF resources were at their height. Diminishing resources could necessitate a shift in focus toward restructuring project financing, rehabilitation, and regulatory compliance with declines in new unit production. However, the worst impacts of the revenue reduction do not begin until FY 2025-26 when staff layoffs may first be implemented.
- The Requested Budget for **Prosper Portland** includes a \$7.4 million decision package for new General Fund resources. Per budget note direction provided in the FY 2022-23 Adopted Budget regarding expiring TIF funds, \$20 million in General Fund resources were directed to be set aside for Prosper, PHB, and Portland Harbor. Prosper’s request directs associated resources of \$3.1 million to fund economic development programming, \$3.1 million for 14 positions that enable small business and middle-income housing financial

assistance, tenanting and leasing commercial space, and servicing \$70 million loan portfolio, and \$1.4 million for five positions in the Office of Events and Film and Small Business Office. CBO recommends this request in alignment with budget note direction.

- Since the **Portland Clean Energy Fund’s** (PCEF) inception, the program has experienced significant changes and expansions. One impact has been the addition of grant-making responsibilities to the Bureau of Planning and Sustainability, which manages the fund. PCEF staff in Planning and Sustainability and the PCEF committee are currently deliberating on the best process to allocate the remaining resources included in the five-year forecast. The FY 2024-25 requested budget includes requests that represent \$359 million of PCEF funding to be allocated over five years.
- The **Bureau of Planning and Sustainability** met its General Fund reduction in large part by leveraging PCEF revenue through the bureaus’ internal allocation of overhead costs across its different fund sources. Additionally, they requested to add 9.0 FTE to the PCEF team to administer PCEF grants and allocations. CBO recommends for these decision packages.
- In FY 2022-23, the Graffiti Abatement program was transferred from Civic Life to the Bureau of Planning and Sustainability, along with \$710,000 of ongoing General Fund resources. Planning and Sustainability believes the program needs a dedicated management position, which is currently filled in a limited-term capacity through an interagency agreement with the Public Environment Management Office. The resources to cover contracts that provide graffiti abatement services are also covered with one-time resources. As significant portions of the program’s budget are one-time funded, Council will need to determine how to align service and funding levels in FY 2024-25 and beyond.

BUDGET CONSTRAINTS

Overview

Bureau/Division/Major Program	Total Budget Gap	Description of reductions	Proposed reductions in FTE and limited term
Portland Housing Bureau	<ul style="list-style-type: none"> • \$212,703 (ongoing General Fund resources) • \$13.9 million of expiring one-time (American Rescue Plan Act resources) 	The 5% constraint was absorbed through reductions in travel, training, and other miscellaneous expenses	0.0 FTE
Bureau of Development Services	<ul style="list-style-type: none"> • \$99,694 (ongoing General Fund resources) • \$19 million (non-General Fund gap expected in FY 2024-25: \$1.6 million/month) 	<ul style="list-style-type: none"> • \$56,545 in the Neighborhood Quality program, reducing rental inspections • \$32,782 in Liquor Licensing 	0.0 FTE for the General Fund reductions Additional layoffs possible depending on fee revenues

		<ul style="list-style-type: none"> • \$10,367 in the Noise program, impacting Noise inspections • Additional impacts to permitting functions possible 	
Prosper Portland	<p>\$463,917 (ongoing General Fund Resources)</p> <p>\$888,697 (ongoing Recreational Cannabis Tax revenues)</p>	<ul style="list-style-type: none"> • \$231,623 – 7% reduction to Workforce Development contracts • \$179,910 - 5% reduction to contracts with Inclusive Business Resource Network • \$13,249 - 1% reduction to funding to Neighborhood Prosperity Network • \$39,135 - 7% reduction to contract with Venture Portland • Elimination of the SEED program 	2.0 FTE
Bureau of Planning & Sustainability	\$772,809 (ongoing General Fund resources)	Covered with internal resources by moving equity positions funded by the General Fund to the bureau's internal overhead model, with Portland Clean Energy Funds partially	0.0 FTE

		supporting Climate and Energy program staff	
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KEY FINANCIAL ISSUES AND DECISION PACKAGES

Bureau of Development Services and Permitting Services Sustainability

The Mayor’s guidance for the FY 2024-25 budget development process includes directives for bureaus and service areas to provide policy options for key financial issues specific to their situation. For the Bureau of Development Services, this includes the following two components:

- Provide options to address the projected deficit that minimizes impact on permitting timelines. Identify efficiencies within centralized permitting that significantly improve services.
- Provide options to address a worse-than-projected scenario. Include projections regarding the time it will take to recover permitting activity.

Development Services has provided the following options to comply with the directive:

Provide options to address the projected deficit that minimizes impact on permitting timelines. Identify efficiencies within centralized permitting that significantly improve services.

One approach being explored to mitigate the projected deficit, while minimizing impact on permitting timelines, involves working in collaboration with other permitting bureaus towards centralizing the permitting processes under a Single Permitting Authority (SPA). This initiative is aimed at streamlining operations and expediting the overall permitting process, potentially leading to significant improvements in efficiency. However, the specifics of this arrangement are still under development, with financial considerations being a major point of discussion. The transition involves reallocating existing positions to the SPA, as well as creating new positions to fill current operational gaps. However, without conducting a complete business process analysis, this consolidation may not deliver expected efficiencies.

In response to these challenges, the permitting bureaus are working to consider both short-term and long-term options to address the funding shortfalls and gaps in services to improve the efficiency and sustainability of the permitting functions in the City. Development Services, working with the Permit Improvement Taskforce staffed in the Office of Management and Finance submitted a Decision Package request for General Fund resources for new positions within the SPA that would be dedicated to permit improvement strategies including improving the customer-facing website. A detailed analysis of that decision package is included below.

Provide options to address a worse-than-projected scenario. Include projections regarding the time it will take to recover permitting activity.

To address a scenario where the downturn in permitting activity is worse than projected, Development Services has proposed that Council appropriate \$6.2 million from the General Fund for the bureau. This allocation is aimed at sustaining staff levels for an additional three to four months, providing a buffer to manage through the downturn. Development Services has also proposed an increase in fees beyond the typical adjustments. While a 5% fee increase is already incorporated into the financial projections for most of its programs, each additional 5% increase may extend the bureau's reserve depletion timeline by one to two months.

CBO notes that drawing \$6.2 million from the General Fund poses significant risks, given the fund's existing constraints and the uncertainty surrounding the duration of the downturn. Such an action could exacerbate the financial strain on resources already stretched thin, with no definitive end to the economic challenges in sight. Similarly, increasing fees requires careful consideration, as it could potentially discourage investment at a time when encouraging economic activity is crucial. Higher fees may bring about the unintended consequence of slowing down the recovery in permitting activity by making projects less financially viable for developers.

However, it's important to also consider the risks and costs associated with not increasing the fees. Not raising fees could lead Development Services to lay off employees, which in turn would lengthen the time required to issue permits. Although fee increases are generally unwelcomed, Development Services emphasizes that developers may favor a fee hike if it results in shorter permit processing times, rather than maintaining current fees and facing extended permit issuance periods. Therefore, decisions on fee adjustments should be informed by surveying developers to understand their willingness and the extent to which they would accept higher fees for shorter permit processing times.

Development Services' financial forecasts suggest a recovery timeline of 18 to 24 months before permitting activity rebounds to more robust levels. Conversely, without intervention, Development Services is projected to deplete its reserves within 9 to 11 months, after which point, they would begin deeper layoffs. In evaluating these options, it is important to balance immediate financial needs against the long-term sustainability of the bureau and the broader economic health of the City. The following section is an analysis of Development Services reserves to enable a better understanding of the situation.

Bureau of Development Services Reserves

Development Services Revenues and Expenses

Development Services' revenues have been on a downward trend since FY 2019-20, primarily due to economic challenges brought on by the pandemic, hitting a seven-year low of \$54.0 million in FY 2020-21. Though there was a moderate rebound in FY 2021-22 with revenues increasing to \$71.6 million, this improvement was not substantial enough to replenish the bureau's reserves, leading to a continued, albeit less significant, decline.

Development Services is heavily reliant on revenues from large projects. The revenue Development Services collects is based on project valuation. Portland construction activity, and in particular large project activity, has been declining. Development Services is expecting 18 to 24 months of low permitting activity. The Development Services Financial Advisory Committee highlighted that the drop in new construction activity is due to higher interest rates making it more difficult for commercial projects to obtain underwriting. There is very little new development on the 2024 horizon because it is cheaper to buy existing commercial buildings at reduced prices than to construct new ones. There is also little demand for new hotel or office spaces because of work from home and out-migration from the urban core.

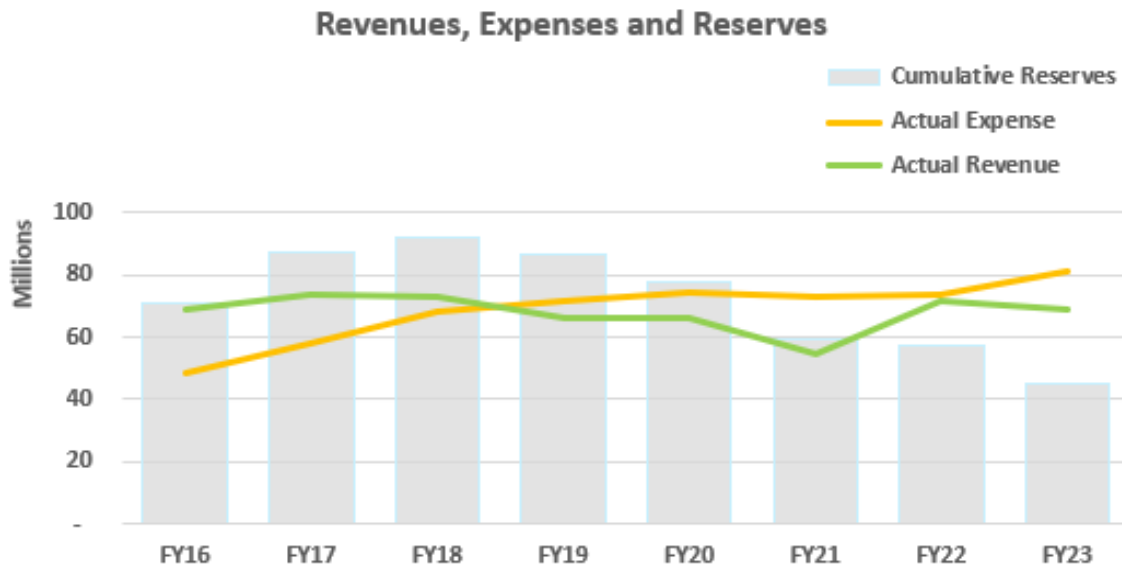
Since FY 2018-19, bureau expenses were fairly stable until a rise from \$73 million in FY 2021-22 to \$81 million in FY 2022-23. This increase can be attributed to the following reasons:

1. The Cost-of-Living Adjustment (COLA) rose by 5% in both FY 2022-23 and FY 2023-24, significantly impacting personnel expenses, which represent over 70% of total Development Services expenditures. This increase notably affected FY 2022-23 expenditures and is expected to continue in FY 2023-24.
2. 17 new FTE positions were added in the Fall BMP of FY 2022-23. Twelve of these new positions, established as Limited Term in the Spring Supplemental Budget of FY 2021-22, were a response to anticipated economic recovery. At that time, projections suggested an increase in Development Services workload, prompting the hiring to reduce the permitting turnaround time and streamline the permitting process. Development Services was allocated \$2.3 million in one-time General Fund money to support the newly added positions. Per a Budget Note in the FY 2022-23 Adopted budget, the bureau was directed to prioritize internal support for maintaining the Neighborhood Inspections program's current service levels, using these funds as needed. Accordingly, Development Services directed \$1.2 million of the \$2.3 million received in the FY 2021-22 Spring Supplemental to the Neighborhood Inspections Program.

In the Fall Supplemental Budget of FY 2022-23, those 12 positions were made permanent, and funding shifted to Development Services fees and permit revenues. This decision was made under the assumption

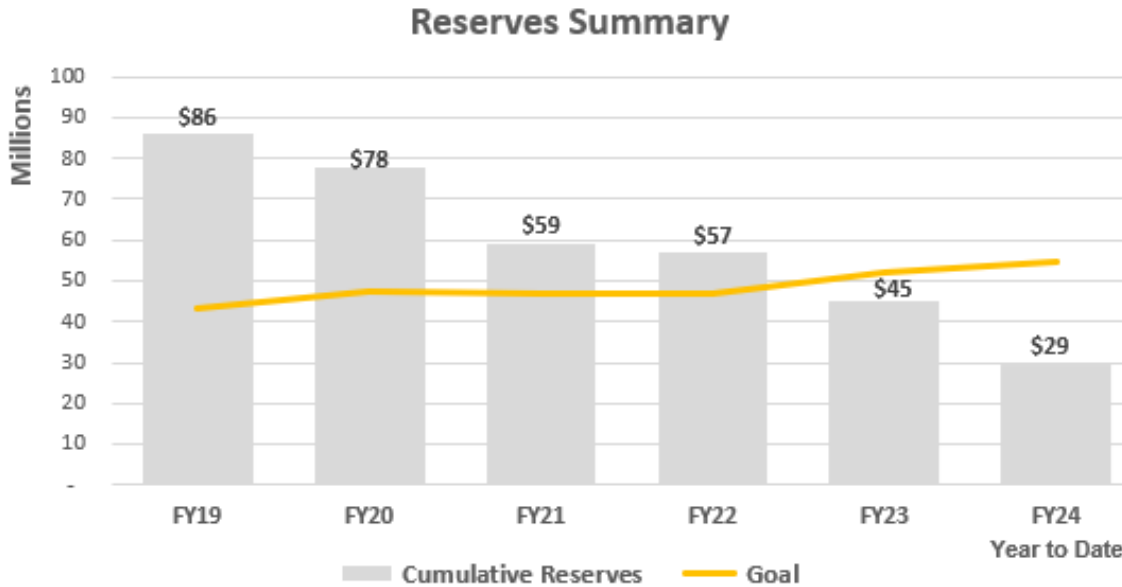
that the economic situation was less dire than it turned out to be. Making these positions permanent was not expected to significantly increase financial pressure on the bureau at the time.

During that Fall Supplemental, five FTEs were added for specific classifications and work groups within the bureau to address areas of need which could not be addressed with existing vacancies. These positions, funded by Development Services fees and permit revenues, included 2.0 FTE for the Property Compliance Division, 1.0 FTE for the Residential and Commercial Inspections Division, and 2.0 FTEs for the Technology, Training & Continuous Improvement Division. These positions were funded with permit revenues, and projections at the time indicated sufficient revenues to support these position for five years.



Development Services Reserves

To pay for the bureau’s increasing expenses during a time of declining revenues, Development Services has had to draw from its reserves, which the bureau has been building up over the years. These reserves, which peaked at \$91.6 million in FY 2017-18, have since fallen, and this year it dropped below 50% of the bureau’s annual expenditures, which is the level at which the bureau sets its reserve minimum. In FY 2022-23, Development Services drew \$12 million from its reserves throughout the fiscal year. The current reserve balance stands at \$29.4 million on January 1, 2024. The fiscal trajectory of FY 2023-24 shows an unsustainable monthly withdrawal rate of \$2.4 million per month on average from these reserves.



Reserve Policy

Development Services has set an overall minimum reserve level of 50% of the bureau’s annual budget, below which total bureau reserves should not drop. The 50% minimum reserve means the Bureau can cover its expenses for 6 months without additional revenue. However, during a downturn, as is the case now, reserve levels may not be able to meet this minimum requirement, and the bureau draws on reserves to maintain operations until revenue can support expenditures again.

Fee revenue decline does not necessarily equate to a decrease in workload. In FY 2008-09, the reduction in large commercial projects reduced revenue but did not significantly lessen the workload, as many smaller residential projects still required extensive staff work without bringing in as much revenue.

Considering Development Services’ experiences in the 2007-2009 recession, the bureau has since raised reserve goals for many of its programs since FY 2010-11. The reserve goals and business continuity plan is summarized below.

Development Services Reserve Goals		
Program	Reserve Goal as Percent of Annual Expenditures	Reserve Goal as Months of Expenditures*
Building/Mechanical	75%	9
Electrical	50%	6
Plumbing	50%	6
Facilities Permits	50%	6
Site Development	50%	6
Environmental Soils	75%	9
Signs	75%	9
Zoning	50%	6
Noise	50%	6
Cannabis Licensing	50%	6
Liquor Licensing	50%	6
Land Use Services	75%	9
Neighborhood	50%	6

Inspections		
Bureau Total	50% Minimum Reserve Level	6 months Minimum Reserve Level

Business Continuity Plan Triggers:

In response to these challenging financial conditions, the bureau has established mechanisms as part of its Business Continuity Plan. This plan, designed to mitigate financial strain, is activated when four out of its five designated triggers are met. Reduction measures, outlined below, are triggered any time four out of the five following conditions occur at the same time:

1. The bureau’s cumulative cost recovery rate is below 100%
2. Bureau reserves are below the minimum reserve goal of 50% or approximately 6 months of total expenditures (reserves are below 50% of the total annual budget)
3. Bureau revenues have been declining consistently for the previous 6 consecutive months;
4. The total value of all building permit applications received by the bureau has been declining consistently for the previous 6 consecutive months.
5. The total number of all building permit applications received by the bureau has been declining consistently for the previous 6 consecutive months.

Measures Taken

Currently, all five triggers of the Business Continuity Plan are active, indicating the bureau is in a critical phase. To reduce the bureau’s expenditures, the following cost-saving measures have been implemented or are in progress:

1. Hiring freeze, offering voluntary schedule reductions, reducing overtime spending as well as non-essential spending on training.
2. Layoff of temporary employees (including returned retirees) and contract employees
3. Layoff of nine probationary employees
4. Layoffs across all divisions of 56 FTEs of regular employees occurred in January 2024. The overall impact of workforce reductions across the bureau amounted to 73 employees or 19% of the workforce, as opposed to the layoffs of 50% of the workforce done in 2009. The approximate labor cost savings is about \$982,000 per month.

Development Services faces significant financial challenges, evidenced by the activation of all five triggers of its Business Continuity Plan.

Policy Recommendation on Reserve Targets

Given Development Services' ongoing deficits and the depletion of its reserves since FY 2018-19, with levels dipping below the critical 50% target amidst recent economic downturns, CBO recommends assessing the bureau’s reserve policy and business continuity plan. The continuous deficit for many years should have signaled a need for caution in further hiring, especially considering that personnel expenses constitute 70% of the bureau's budget.

The existing reserve policy was instrumental in building up reserves to \$90 million in FY 2017-18, providing Development Services with a financial cushion to navigate through the subsequent years of deficits. However, the ongoing deficits and reserve depletion since FY 2018-19 require reassessing this policy in light of evolving economic conditions. Additionally, as part of the effort to reconsider BDS’s reserve policy, City Council should consider whether other revenue sources, potentially including the General Fund, could be used to ensure that BDS can retain an appropriate level of staffing during recessions to support growth during recoveries. While the

experience of the 2008 recession is an important historical data point, policy analysis of funding options for the new SPA should consider multiple economic scenarios that could play out in the coming years in Portland.

Single Permitting Authority (\$3,675,000 ongoing GF, and \$950,000 one-time GF) - DP 19411

This package requests \$3,675,000 in ongoing General Fund resources to support the work of 18 Single Permit Authority (SPA) and Bureau of Technology Services (BTS) FTEs, including overhead and website chatbot annual fees; and \$950,000 in one-time General Fund resources for staff training and BTS billable hours. The request for an SPA represents a shift towards centralizing and streamlining the permitting processes, and the initiative seeks to address longstanding inefficiencies in the current decentralized system by consolidating services under SPA. The inclusion of 18 new FTEs is posited as a solution to fill existing gaps in service capabilities, particularly in areas of technology and customer support that are not currently covered by any of the existing permitting bureaus.

While the intention to enhance efficiency and improve customer service is clear, the request raises questions regarding the financial sustainability of the new positions.

A notable concern initially appears to be the absence of a comprehensive Business Process Analysis (BPA) prior to the formulation of the SPA structure and staffing needs. However, some foundational BPA work has been done, providing initial insights for the SPA's strategic direction. This early-stage analysis has begun to shape the understanding of required position classifications within the SPA, although exact classification is pending. For example, determinations on whether a position is classified as a BSA I, II, or III will be made before initiating the hiring process. Importantly, recognizing that the BPA is in its early stages and will be an ongoing process highlights the fluid nature of the SPA's development. The process will continue beyond the SPA's initial operational phase, allowing for continuous adjustments based on operational feedback and evolving needs.

Given the BPA's early stage, CBO is concerned about the full extent of the requested funding. Allocating the entire requested sum without a complete understanding of the SPA's structural and operational requirements might not be the most prudent approach. This caution is further justified by the highlighted challenges in transitioning positions and funding from various permitting bureaus to the SPA, which underline the complexities of such a reorganization. These factors collectively suggest a need for more detailed planning and coordination to ensure a smooth transition. The ongoing nature of the BPA, coupled with these transition challenges, indicates that a phased or conditional funding approach might be more appropriate, allowing for adjustments based on the evolving understanding of the SPA's needs and operational effectiveness.

It is important to consider the interrelated nature of the work involved in establishing and operationalizing the SPA. The tasks ahead are not isolated but deeply interconnected, affecting various aspects of the permitting process from technology to customer service. The Permit Improvement Team notes that this interconnectedness means that piecemeal funding could potentially hinder the SPA's ability to achieve its objectives efficiently and effectively. The comprehensive scope of the project, aiming to streamline and improve the permitting process substantially, may necessitate a holistic approach to funding. Without the full requested amount, the team believes there may be a risk of creating bottlenecks and inefficiencies, undermining the very goals of the SPA.

While the Single Permitting Authority (SPA) project is crucial for streamlining the permitting process, the reliance on the General Fund for its financing presents significant challenges, given the existing financial pressures on these resources. The project's efficiency and justification largely hinge on its ability to not escalate costs beyond the current expenditures of the permitting system. Ideally, any additional expenses associated with the SPA should be managed through reallocations or savings within the existing budgets of the permitting bureaus involved. This approach not only ensures fiscal responsibility but also maintains the project's alignment with the goal of enhancing efficiency without burdening the City's financial reserves. Currently, the City is engaging with

the bureaus involved in the permitting system to devise a viable alternative funding strategy that does not depend solely on the General Fund. This collaborative effort aims to identify sustainable financial solutions that can support the SPA initiative without exacerbating the city's budgetary constraints. Until these alternative plans are fully developed and assessed for their feasibility, it is prudent to withhold recommendation of this funding request.

CBO Recommendation: \$0, ongoing General Fund resources | 0.00 FTE

Permit Improvement Team (\$1,335,267/4FTE; staff training and consultancy) - DP 19481

This package requests \$1,335,267 in one-time General Fund resources for four FTEs, staff training, and consultant capacity to continue the work of the Permit Improvement Team (PIT) for one year. PIT was established as a two-year project to centralize the effort and accountability for improving how the City works to deliver high quality and responsive service to customers. PIT supports discrete projects, cross pollinates process improvement efforts, and works as change management agents. As the Single Permitting Authority (SPA) initiative approaches its commencement phase, the role of the PIT may become increasingly critical. The PIT team, having been closely involved in the planning and pre-implementation stages of the SPA, possesses invaluable insights and expertise essential for the smooth rollout of this significant organizational change.

This package requests funding to continue the PIT effort for one more fiscal year to work on discrete projects with finite end dates. The positions are not intended to be extended beyond June 30, 2025 without additional funding. The team has indicated that if any portion of the request is not funded, then that portion of the work would not begin. If PIT is not funded, the current improvement projects, including the implementation of the SPA, may halt. The team believes that partial support would result in a slowdown of current process improvement implementation and may place the success of SPA in jeopardy, as there will be no FTEs to see it through and address many unresolved elements needed to implement and fully operationalize the new organization.

However, CBO believes that a strategic allocation of resources, even if less than the full request, might still allow for significant progress on priority areas. While full funding ensures comprehensive support for the SPA's implementation and the continuation of current improvement projects, a carefully prioritized approach can mitigate the impact of reduced funding.

A feasible approach might be to allocate \$900,000 specifically for the FTEs critical to the SPA's operation, while opting not to fund the \$400,000 requested for capacity and capability gap training for internal staff. This allocation strategy prioritizes the immediate staffing needs essential for the SPA's foundational activities, ensuring that the core team necessary for the SPA's implementation is in place. By focusing resources on securing FTEs for the SPA, the initiative can maintain forward momentum, acknowledging that while training and capacity building are important for long-term success and sustainability, the immediate priority is to establish the SPA's operational framework.

CBO Recommendation: \$900,000, one-time General Fund resources | 4.00 FTE

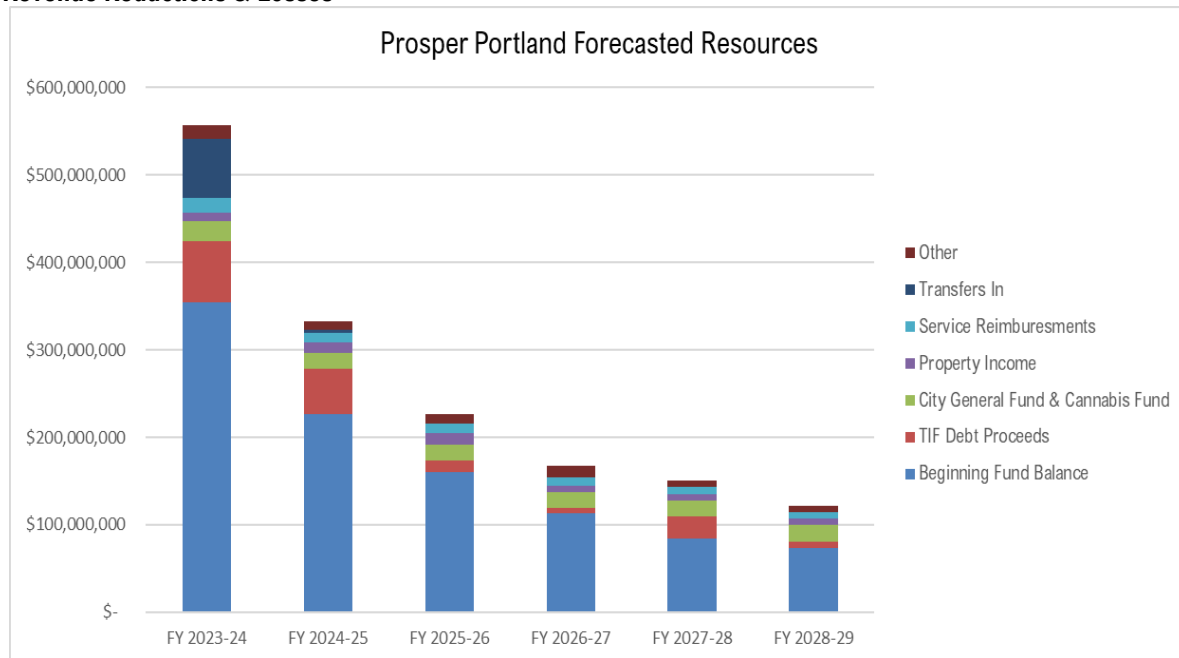
Updated Financial Model for Prosper Portland

As has been discussed in [prior CBO reviews](#), Prosper Portland's (Prosper) key budget issue remains its financial sustainability over the next two to five years, as significant sources of revenue decline. By FY 2028-29, total agency resources are forecasted to decrease to a fifth of current level, from \$568 million down to \$122 million. Much of the decline in revenue relates to completion of property redevelopment projects financed through Tax Increment Financing (TIF) Districts that are beginning to sunset. The decline in resources has notable ongoing operational implications the bureau must be addressed Prosper's full menu of economic development, housing, and property redevelopment programming is to continue unaltered.

In addition to the expiration of TIF districts, Prosper has received significant allocations of one-time General Fund and American Rescue Plan (ARP) resources during the pandemic for economic recovery initiatives. Those resources are being spent down within the next fiscal year. Prosper now receives the large majority of the City’s Recreational Cannabis Tax (RCT) revenues after having two programs transfer from Civic Life to Prosper in FY 2023-24. This revenue source has proved to be very volatile and has significant reductions over the past year. This volatility contributes to uncertainty for Prosper’s overall revenues.

To address these challenges, the agency has developed a proposed future financial model. Prosper’s latest financial sustainability model update was released in spring 2023, and presented to Council, the details of which can be found in the [Prosper’s Financial Sustainability Plan Addendum](#). The subsequent sections of this memo detail the outlook of notable resources and summarizes the agency’s tentative strategy moving forward.

Revenue Reductions & Losses



(Note: Beginning Fund Balance includes amounts reserved for TIF Action Plans, related housing set asides, and Strategic Investment Fund. “Other” includes Fees and charges, Interest on investments, Miscellaneous, Reimbursements, and Service reimbursements.)

TIF Debt Resources

Prosper’s revenues from TIF debt proceeds are currently forecasted to shrink to roughly one-tenth their current level by FY 2026-27, decreasing from \$70 million to \$6.6 million. However, this trend does momentarily reverse in FY 2027-28, with resources rebounding to \$24 million as debt proceeds from the recently adopted Cully TIF district come online. The Cully TIF district initially generates short-term debt revenue through its first four years, with \$200,000 forecast in the FY 2023-24 and ramping up \$20 million in FY 2027-28 once long-term debt proceeds kick-in.

While no other TIF districts are currently scheduled to come online, Prosper is actively engaged in exploration of new TIF districts and received \$1 million in one-time General Fund resources in FY 2022-23 to conduct outreach and engagement towards three new East Portland TIF District and four new Central City TIF districts. Exploration for the East Portland TIF district recently transitioned from steering committee to establishing work groups for exploration. While a potentially promising new source of funding, actual passage and implementation of a new districts would be

some time away, with a multi-year lag between establishment and any material resource becoming available for agency operations and projects within the designated geography.

It should also be noted that while Prosper's overall TIF resources are expected to decline dramatically over the next several years before the partial Cully rebound, TIF districts also generate program income via lending, property investment, and other fees and charges. Once TIF district action plans and other community-based commitments are fulfilled, program income is no longer tethered to the relevant geographic area and maybe be used for other programming. Prosper plans to use a portion of these revenues to stand up a strategic investment fund that forms an important component of their financial sustainability plan and which is represented in the \$58 million of "transfers in" revenue in the FY 2023-24 forecast in the graph above. This component of the agency's financial strategy is discussed more within the subsequent section Prosper's Financial Sustainability Plan Addendum.

One-time Resources

In recent years, Prosper received significant allocations in one-time resources for initiatives aimed at the economic impacts of COVID-19. These resources provided funding to both new programs such as Small Business Repair Grants, Small Business Relief Fund, and Childcare Relief Fund, created to address pandemic-specific challenges, as well as expanded services of economic development programs such as the Inclusive Business Resource Network (IBRN), Venture Portland, Workforce Development, and Neighborhood Prosperity Networks. Meanwhile, ARPA funds were also directed at miscellaneous one-time investments such as establishment of the Portland Events & Film Office, Future of the Central City study, BIPOC in Tech initiative, Neighborhood District Strategy, among other investments. A list of these allocations and their funding sources can be seen below.

Now four years out from the pandemic's onset, one-time funding is being spent down. Between FY 2022-23 and FY 2023-24, the agency had a combined \$28 million in one-time resources from the General Fund, the Recreational Cannabis Tax, and American Rescue Plan ACT (ARPA) Act funding shown in the table below. Of these resources, the \$8 million remaining is anticipated to be fully expended by December 2024.

In previous discussions with Prosper, the agency noted that while ongoing funding will sustain most core programming, maintaining service levels over time will require additional funding sources. Among these current one-time allocations. Funding for the Office of Events and Film, IBRN financial advisor and additional one-time funding for IBRN professional services carried over into FY 2023-24, after which additional funding would be required to sustain the investments. Meanwhile several American Rescue Plan Act programs will continue over the next through December 2024 using existing resources– business stabilization, relief grants, rapid workforce training and employment, and Venture Portland Catalytic Investment.

Financial Sustainability Plan Addendum

Prosper adopted an initial Financial Sustainability Plan (FSP) in July 2018. However, key assumptions in the agency's original draft were undermined by the shifting economic dynamics post-pandemic. Among the financial impacts stemming from higher costs of capital and lower commercial space demand were lower than forecasted revenues and higher than anticipated operating costs from properties Prosper owns including parking garages, a hotel, ground floor retail leasing, as well as property development revenues such as those tied to the Broadway Corridor agreement.

In response to these worsening economic conditions, Prosper revisited components of their original plan and provided an addendum, released in March of 2023. As stated within the FSP Addendum, their updated financial model includes more specific assumptions around property dispositions, operating asset investments, lending products and production targets based on past performance and current community needs. The updated financial model also emphasizes funding support from the City's General Fund and Recreational Cannabis Tax Fund, new TIF resources, and program income (a category the agency uses to describe revenue generated via TIF-funded investments). Within this model, Prosper seeks to fund a \$30 million operating budget. Notable components are discussed below.

FSP Addendum Model, 5-Year Operating Revenue (\$ in thousands)

	Operating Revenue Source	FY2023-24	FY2024-25	FY2025-26	FY2026-27	FY2027-28
Existing Resource	General Fund	\$ 6,707.00	\$ 6,704.34	\$ 6,838.42	\$ 6,975.19	\$ 7,114.70
	Cannabis	\$ 4,038.00	\$ 4,038.00	\$ 4,118.76	\$ 4,201.14	\$ 4,285.16
	CDBG - EOI	\$ 2,263.00	\$ 1,971.06	\$ 1,872.51	\$ 1,778.88	\$ 1,689.94
	NPI County/City Revenue Share	\$ 493.00	\$ -	\$ -	\$ -	\$ -
	Interest on Cash	\$ -	\$ -	\$ -	\$ -	\$ -
	Existing Loan Interest Income	\$ 645.51	\$ 600.69	\$ 496.28	\$ 405.89	\$ 357.25
	Real Estate NOI (existing property)	\$ (3,183.92)	\$ (1,527.66)	\$ (577.16)	\$ 260.31	\$ 295.54
	Ezone Revenue	\$ 480.00	\$ 327.11	\$ 200.00	\$ 200.00	\$ 200.00
	Existing TIF District Allocations	\$ 21,388.00	\$ 16,600.00	\$ 10,939.00	\$ 7,083.00	\$ 3,312.00
	New Resource	IGA Fees / Special Purpose Grants	\$ 367.00	\$ 190.00	\$ 190.00	\$ 40.00
Federal and Local Grants (CARES, EDA, ARPA)		\$ 10,474.00	\$ -	\$ -	\$ -	\$ -
One-time GF and Cannabis Funding		\$ 13,763.00	\$ -	\$ -	\$ -	\$ -
COEP		\$ 2,325.00	\$ -	\$ -	\$ -	\$ -
Returning TIF		\$ -	\$ 8,233.48	\$ 8,427.31	\$ 8,626.95	\$ 10,336.30
New TIF Districts (amount for Operations)		\$ 119.88	\$ 243.35	\$ 490.41	\$ 747.51	\$ 2,534.51
New TIF Investments (Loan Income)		\$ 92.76	\$ 1,034.01	\$ 2,035.83	\$ 2,790.63	\$ 3,501.56
New Non-TIF Investments (Strategic Investment Fund)		\$ -	\$ 620.00	\$ 1,835.60	\$ 3,034.40	\$ 3,266.40
New TIF Investments - Property Disposition Operating Income		\$ 756.34	\$ 322.14	\$ 507.29	\$ 389.04	\$ 508.66

Budget note on Returning TIF Revenues

The FY 2022-23 Adopted Budget included a Budget Note directing the City to set aside \$20 million in ongoing resources from expected returning TIF revenues beginning in FY 2024-25. The City Budget Office was directed to place \$8.0 million – roughly 25% of the total forecasted returning TIF resources - in a policy set-aside for the bureau. Prosper’s FY 2024-25 Requested Budget includes a Decision Package for \$7.6 million in returning TIF funds, which reflected the original \$8 million budget note, less a 5% constraint levied on all general fund programs as outlined in the Mayor’s FY 2024-25 Budget Guidance. Details on how the bureau intends to allocate these returning funds are outlined in the funding request analysis at the end of this review. Prosper’s FSP Addendum identifies returning TIF revenue – now General Fund – as the largest new revenue sources the agency hopes to secure, representing 59% (\$68 million cumulatively) of new operating revenue through 2031 in their model forecast.

Strategic Investment Fund & Unrestricted Program Income

Another core component of Prosper’s FSP Addendum is establishing a Strategic Investment Fund using program income. As noted, program income is the term used by Prosper for revenues generated through return on TIF funded investments. This comes in various forms, including small business loan income as well as leases and sales of agency held property. While TIF related resources are generally confined within the district’s geographic boundary and for uses defined in the district’s community developed work plan, such as affordable housing developments, arts and culture initiatives, business loan programs, and recreational improvements—based on Prosper’s analysis, once fully financed, the additional revenues derived from these various investments can be treated as unrestricted, and are available for use for agency programs and projects outside the originating TIF district

Prosper’s financial strategy incorporates this unrestricted program income as seed funding for their newly formed Strategic Investment Fund. This fund will incorporate a variety of investment activity to further Prosper’s mission and generate ongoing resources for the agency through new loan products such as real estate acquisitions and mezzanine debt, existing business lending products, and strategic investments in agency-held properties. In FY 2023-24, the agency anticipated transferring \$46 million in unrestricted program income for the Strategic Investment Fund, which they forecast will generate an additional \$23.5 million in revenue through FY 2031-32.

New & Existing TIF Resources

Despite the near-term decline of TIF resources, revenues from existing and new districts the agency hopes to establish will continue to play an important role under the updated FSP. These resources include new and existing TIF debt proceeds, loan income, and property disposition and account for a 34% (\$141 million cumulatively) of total operating revenue through FY 2031-32 within Prosper’s Financial Sustainability Plan forecast update.

Additional New Revenue Streams

Prosper’s FSP Addendum identifies additional revenue sources to explore using a priority ranking system based on funding availability, administrative needs, and risk characteristics. Top priority among these is Enterprise Zone revenues, real estate-based investments, charges for service, new TIF districts, and grants. Further exploration is likewise encouraged for transient lodging and vehicle rental taxes, enhanced service districts, fee-based memberships, new market tax credits, EB-5 programs, expanded transportation revenues, construction excise taxes, and social impact investment fund. Further definition of these sources can be found within the FSP Addendum.

Recreational Cannabis Tax Fund Volatility

Recreational Cannabis Tax (RCT) revenue has been volatile over the short life of the fund. This has resulted in the fund being over-subscribed and, as a result, ongoing reductions were taken for FY 2024-25. Additionally, Council approved a budget note directing the City Budget Office to establish a reserve fund policy to help stabilize ongoing programming. However, the reserve will not be funded in the near term as RCT revenues have come in much lower than even the lower end of the forecast as anticipated in late 2023.

In fall of 2023, fund volatility was further impacted by an administrative error in tracking RCT expenses after changes were made in the FY 2023-24 Fall Supplemental Budget. Because of this, the complete impact of revenue losses was not reflected in the December 2023 forecast. Based on the corrected expenditure allocations, without taking any action, the Recreational Cannabis Tax Fund is projected to have a deficit of at least a \$2 million in FY 2024-25. This deficit is driven by the fact that there are more one-time expenses in the current fiscal year due to a larger carryover balance than revenues to support that balance combined with a significant revenue decline. The table of corrected allocations is listed below.

FY 2023-24 Adopted & Fall BMP Recreational Cannabis Tax Fund Current Year Allocations			
Expenditures	One-Time	Ongoing	Total
Civic Life	\$102,121	\$0	\$102,121
Transportation - Vision Zero/traffic safety	\$0	\$1,779,895	\$1,779,895
Housing – Drug/Alcohol Treatment	\$0	\$337,745	\$337,745
Portland Fire and Rescue – Portland Street Response	\$0	\$724,090	\$724,090
Prosper – Multiple Programs	\$7,519,118 ¹	\$4,039,532	\$11,558,650
City Budget Office – Administrative Support	\$0	\$25,380	\$25,380
Cannabis Reserve Fund	\$0	\$0	\$0

Due to declining revenues, the Recreational Cannabis Tax Fund will need to take ongoing, across-the-board cuts of 22% beginning in FY 2024-25 to balance the fund’s forecast. [This update](#) will put the fund in a sustainable ongoing position over the coming five years but leave a one-time funding gap in FY 2024-25. The one-time gap is being addressed by delaying fund disbursements from FY 2023-24 to FY 2024-25 and reducing the fund’s contingency to zero.

Prosper Portland– Returning Tax Increment Financing General Fund Discretionary

Context

Prosper Portland is requesting \$7.6 million in additional ongoing General Fund resources related to the expiration of the City’s Tax Increment Financing (TIF) districts. The FY 2022-23 Adopted Budget included a Budget Note directing the City to set aside \$20 million in ongoing resources from expected returning TIF revenues beginning in FY 2024-25. The City Budget Office was directed to place \$8.0 million – or 25% of the total forecasted returning TIF resources - in a policy set aside for the bureau. However, along with most other bureaus’ ongoing General Fund allocations, the amount has been reduced by 5%, or \$400,000, due to the need to realize resources to support the implementation of the City’s new form of government resulting from voter-approved Charter reforms.

Analysis

Please see the “Updated Financial Model for Prosper Portland” section above for a financial context of this request. The discussion here will focus on the bureau’s usage of the funds.

If ultimately allocated to the bureau, Prosper would use returning ongoing General Fund resources from the TIF Districts for the following:

- \$3.1 million to fund the full cost of Economic Development - Business Advancement, Adult & Youth Workforce Development, Inclusive Entrepreneurship, and Community-Based District Support (Neighborhood Prosperity Network and Venture Portland) programs, funding 16 direct service positions, five indirect positions, and associated overhead. Returning TIF makes up 36% of total General Fund investment in ongoing programs and approximately 22% of total program funding when including Recreational Cannabis Tax, CDBG and other sources.
- \$3.1 million for eight direct service positions to deliver \$45.0 million in financial assistance and investment outside of TIF districts, small business tenanting and leasing assistance, and ongoing asset management for the property portfolio outside of TIF districts. This includes 14 positions (direct and indirect) and all associated overhead for managing new lending and leasing activities as well as the existing loan portfolio. Returning TIF makes up 100% of total General Fund investment in the program and approximately 26% of total funding when including Strategic Investment Fund and other sources.
- \$1.4 million for three direct service positions in the Office of Events and Film and two direct service positions in the Small Business Office, including full program overhead. Returning TIF makes up 88% of total General Fund investment in the program and approximately 78% of total funding when including non-General Fund resources.

CBO Recommendation: \$7.6 million, ongoing General Fund resources | 0.00 FTE

Updated Financial Model for the Portland Housing Bureau - Loss of Tax Increment Financing and Bond Revenues

Overview

For several years after 2015, when the City’s State of Housing Emergency was first declared, the Portland Housing Bureau experienced a significant resource and service expansion, but some of its largest revenue sources have since peaked and are trending down towards pre-emergency levels. These historic funding levels were driven by the following: two affordable housing bonds, increasing the percentage of Tax Increment Financing (TIF) District resources dedicated to affordable housing; increasing the bureau’s General Fund

allocation, which primarily went to the Joint Office of Homeless Services (JOHS); added resources related to Short Term Rentals (STR), the Construction Excise Tax (CET); Inclusionary Housing fee-in-lieu; and a Rental Registration fee.

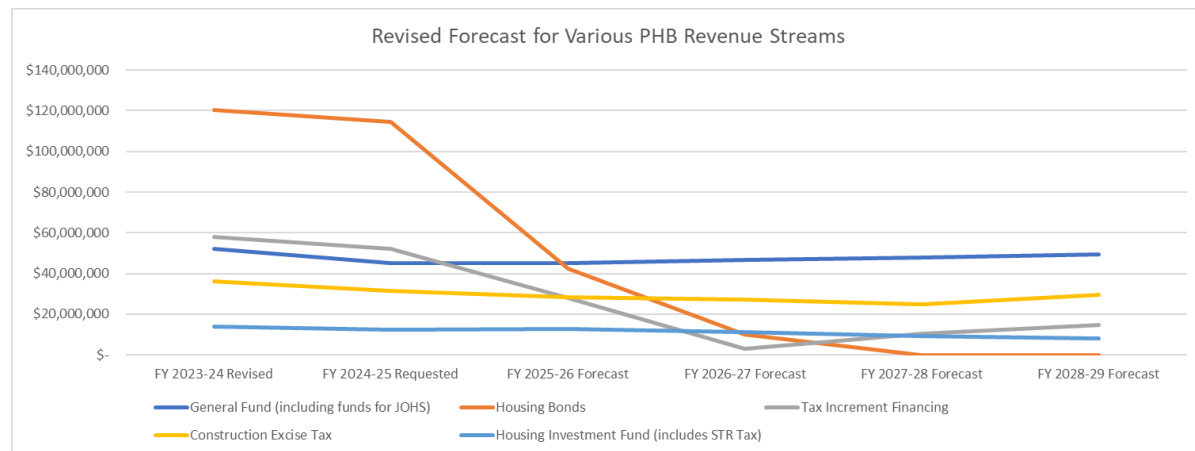
The “peaks and valleys” of the bureau’s funding history are due to Tax Increment Funding (TIF) resources and to the funding associated with the State of Housing Emergency, particularly local and regional affordable housing bonds. As these resources are time-bound in nature, the bureau’s five-year forecast shows projected revenues to decline to a level comparable with the pre-State of Housing Emergency levels. In addition, the Housing Bureau has several programs funded by one-time American Rescue Plan (ARP) Act resources that will expire at the end of calendar year 2024, some of which meet needs that are ongoing in nature. Even after City Council set aside \$8 million of the returning TIF resources for the Housing Bureau (\$7.6 million after the 5% constraint), there will be a significant reduction of resources available for affordable housing development and homeownership programs starting in FY 2025-26, and the bureau will need to make internal service and operational changes to meet this forecasted reduction in resources.

Revenue Outlook

TIF Revenues

TIF revenues are property tax revenues from TIF Districts, of which City policy dedicates 45% to affordable housing. Expenditures of these resources must be related to affordable housing projects in the designated geographical boundaries of a TIF District. The Housing Bureau uses these funds for multi-family rental development projects, affordable homeownership programs, homeownership retention programs, and staff costs supporting these programs.

TIF revenues going to the Housing Bureau are projected to decline, as most of the existing TIF Districts are reaching maximum indebtedness and/or the final year to issue debt in the next few years. City Council approved the creation of a new TIF District in the Cully area with \$350 million in total approved indebtedness, and the Housing Bureau has submitted a revised forecast that incorporates TIF resources from Cully. This revised forecast displays an increase in TIF revenues in FY 2024-25 due to bringing forward TIF funds for housing production in the Central Eastside, Lents, and River TIF Districts, but does not alter the overall trajectory of a substantial decline in this revenue source (see graph below). The revised forecast, as displayed in the graph, includes the additional \$7.6 million in ongoing General Fund resources, starting in FY 2024-25 related to City Council’s dedication of a portion of the returning resources to the bureau (see the section below under Options for the Housing Bureau Revenue).



Bond Revenues

The Portland Housing Bond and the Metro Regional Housing Bond aimed to fund the creation of thousands of permanently affordable homes throughout Portland and the greater Portland area. Bond implementation remains an area of focus for the bureau in FY 2023-24 and over the next few fiscal years. As the Portland Housing Bond projects move into the final phases of implementation, the bond is slated to meet or exceed all the goals set out by the 2016 measure. Currently, there are 1,859 units of Portland Housing Bond-funded housing open or in the development pipeline, 43% more than the original goal of 1,300. Of these units, 399 are supportive housing units, 33% more than the 300-unit supportive housing unit goal. For the Metro Regional Housing Bond passed in 2018, 24 projects are either opened, in construction, or under predevelopment, representing more than 1,700 units of affordable housing—exceeding Portland’s housing goal of 1,475 affordable housing units under the Metro Bond.

Aside from the bond funds themselves, program delivery fees from bond projects are collected from projects as they reach financial close and are completed, representing approximately 3.1% on Metro Bond projects and 7% from Portland Bond projects, covering administrative costs associated with those projects. The 3.1% program delivery fees from Metro Bond projects will not cover the associated costs and will need to be supplemented from other sources. The 7% fee collected from Portland Bond projects is forecasted to nearly cover the costs associated with administering those projects. Based on current expectations, the program delivery fees generated from the Portland Bond projects will be exhausted during FY 2025-26, and funding from other sources will be required to support the Housing Bureau’s efforts to produce more housing units.

One-time American Rescue Plan Act Funded Programs

The Housing Bureau’s FY 2023-24 Adopted budget included \$13.9 million of one-time ARP resources spread across five programs. As noted above, ARP funding is required to be spent by the end of calendar year 2024. During the FY 2023-24 Fall Supplemental Budget process, \$5.5 million of the ARP funding for the bureau’s Land Banking program was replaced by General Fund resources, allowing for a longer time to spend the resources for this program. In addition, the goals and scope of the 82nd Avenue Anti-Displacement Program were revised, with the project now using existing Housing Bureau programs that can meet liability insurance and federal reporting requirements to fully spend the \$1.9 million in ARP funds by the December 2024 deadline. The bureau is not seeking ongoing funding for these two initiatives.

The Housing Bureau has indicated that it would like ongoing resources for the remaining three programs that are currently funded by one-time ARP monies: Preservation of Affordable Housing, Foreclosure Prevention, and Eviction Legal Defense.

Preservation of Affordable Housing - \$5.1 million of ARP resources are devoted to this program to support preservation of currently affordable housing. The effort began in FY 2022-23, with project implementation starting in the current year. This preservation funding is used to help the bureau’s regulated, affordable housing projects address habitability issues. The funding is estimated to help up to 150 low-income households, and the Housing Bureau received funding requests significantly exceeding the available funds. The bureau has indicated that ongoing funding could be used to continue this preservation activity, although it is uncertain what source of funds could be available. The Housing Bureau regulates over 16,500 affordable rental units in over 400 projects, some of which are reaching the end of their useful lives. Except for the ARP resources, the Housing Bureau has not had any dedicated funding for preservation in the past five years. Looking forward, the bureau anticipates making up to \$2.5 million per year in Community Development Block Grant (CDBG) funds available for one or two preservation projects per year but expects a significant oversubscription of this resource. The bureau believes that the City risks rising numbers of uninhabitable buildings without an action plan and needs additional dedicated funding to address the fire and life safety issues.

Foreclosure Prevention – the Housing Bureau began a foreclosure prevention program funded by \$1.0 million of

one-time ARP resources counseling and financial assistance. These counseling and financial assistance program contracts currently run through June 30, 2024. Because ARP funds have to be spent by December 30, 2024, any unspent dollars after June 30, 2024 will be rolled into the Financial Assistance program, and contracts will be extended to no later than December 30, 2024. The bureau has indicated that it would like ongoing funding for this program. The Housing Bureau currently does not offer foreclosure prevention financial assistance outside of the ARP funds. However, the bureau does fund foreclosure prevention counseling with federal Community Development Block Grant (CDBG) dollars. In FY 2023-24, the bureau is providing two organizations a total of \$103,400 in CDBG funds to support this work.

Eviction Legal Defense – Between 2021 and 2024, the Housing Bureau received \$7.1 million of City and County ARP funding for the Eviction Legal Defense (ELD) Program, which the bureau expects to fully spend. Aside from the ARP resources for this program, the Housing Bureau has dedicated some Rental Registration revenues to legal services for renters. The Housing Bureau identifies this as an ongoing need due to historically high eviction filing rates. The Housing Bureau stated that even with the ARP funding, the ELD program never had the capacity to serve all households facing eviction in Portland. In FY 2023-24, the Rental Services Office is supporting all partners in the program with \$1.7 million in Rental Registration funds, which is over \$2 million less than the bureau paid out in FY 2022-23. The Housing Bureau estimates that it would need \$5.6 million to be able to offer legal services to renters in every eviction case, and that an additional \$38 million in financial assistance per year would be needed for the ELD clients.

Options for Housing Bureau Revenue

Given the revenue outlook discussed, the Housing Bureau projects that it will reduce multi-family project gap financing, acquisition, and homeownership programs. Homeownership programs will be heavily impacted, losing as much as two-thirds of the resources they had at the height of their funding. Diminishing resources could necessitate a shift in focus toward restructuring project financing, rehabilitation, and regulatory compliance with declines in new unit production.

The Housing Bureau has begun work on a new strategic plan that will provide clarity about existing resources and future funding needs to meet the City's housing goals, but it will likely not be finalized until charter reform has been implemented. Strategies to mitigate reductions and expirations of the bureau's largest revenue streams include a shift toward relying on Short-Term Rental (STR) Tax revenues and the Construction Excise Tax (CET), both of which have been negatively impacted by the COVID-19 pandemic.

Construction Excise Tax

As TIF resources expire, Construction Excise Tax (CET) revenue began replacing it as a major source of multi-family affordable housing project gap financing. The CET is a 1% tax on new construction collected by the Bureau of Development Services, and the funds are highly restricted. Currently, CET funds are used for pre-development loans and gap financing for multi-family rental projects. They also fund financing incentives for required affordable housing, supporting the production and preservation of affordable housing at or below 60% Area Median Income (AMI), and pre-development loans for both Portland and Metro Bond projects. Post-pandemic, CET revenues had been projected to recover to previously anticipated levels in FY 2024-25, and the forecast for this revenue stream was previously forecasted to be relatively flat over the next five years. However, with the recent downturn in the development economy, the Housing Bureau has had to revise its forecast as well as its forecasting methodology. The bureau noticed that CET commercial revenues track with Developing Services permitting activity with a roughly three-year delay. On that basis, the Housing Bureau has concluded that levels seen pre-pandemic were anomalously high, and the bureau believes that it will take five years or so before it is back to collecting approximately \$2.0 million in annual revenue for CET commercial. The bureau's forecast will likely be conservative, assuming a modest growth environment in the upcoming several years.

Short-Term Rental Lodging Tax

The Short-Term Rental (STR) Lodging Tax is a relatively flexible funding source consisting of fees paid as a percentage of nightly rent for short term rental units. STR was expected to support the Housing Bureau's staff and other program costs. However, it experienced a substantial decline due to the COVID-19 pandemic. The revenue stream was forecasted to recover to previously anticipated levels this fiscal year, and the bureau has indicated that this assumption remains valid. The bureau is currently using STR to support personnel costs and to subsidize the operating costs of programs that do not generate sufficient program income to cover expenses, with the best example being bureau costs associated with supporting Metro Bond projects, where the 3.1% program delivery fee does not cover the Housing Bureau's costs. Moving forward, STR will be a key source of staff funding and bureau operations funding as affordable housing projects move from TIF and bond funding to CET (which has limitations on these uses).

As the City moves past the five-year forecast and these sources presumably become a more significant percentage of the bureau's revenues, it is important to note that the CET and STR Tax are more volatile and sensitive to economic factors than bonds and TIF resources.

General Fund

One potential source of additional revenues is the City's General Fund. The likelihood of additional, ongoing resources from this fund being added to the Housing Bureau's budget in future years is dependent in part on the availability of funds.

In the Housing Bureau's FY 2023-24 budget, there are 38.2 FTEs supported by \$6.1 million of TIF and bond resources. These resources were previously forecasted to expire in FY 2027-28, but with the addition of Cully as a new TIF District, only bond resources are expected to expire (by FY 2026-27) in the bureau's five-year forecast. In addition to supporting staffing costs, TIF resources fund multi-family development projects, down-payment assistance loans, home repair grants, and subrecipient contracts. If ultimately approved by Council to be included in the Housing Bureau's budget, the additional \$7.6 million in General Fund resources, as set-aside by the Budget Note, would partially fill in the funding gap created by the expiring bond resources and the decline in TIF funding. Even with the new funding, though, the bureau expects to have to reduce service levels and staffing costs, with layoffs possibly starting as early as FY 2025-26. The Production team, Neighborhood Housing team, and Business Operations team will be most impacted by the staffing reduction. In case the additional General Fund resources from the Budget Note tied to the expiration of the TIF Districts do not materialize for the bureau in FY 2024-25, the bureau will need to incorporate layoffs and implement service reductions in its budget starting in FY 2025-26. See section immediately below for a description of the request for the ongoing General Fund resources from the set-aside and how the bureau intends to use the funding next year.

Funding Request – Returning Tax Increment Financing General Fund Discretionary – DP 19482

The Housing Bureau is requesting \$7.6 million in additional ongoing General Fund resources related to the expiration of the City's Tax Increment Financing (TIF) districts. The FY 2022-23 Adopted Budget included a Budget Note directing the City to set aside \$20 million in ongoing resources from expected returning TIF revenues beginning in FY 2024-25. The City Budget Office was directed to place \$8.0 million – or 25% of the total forecasted returning TIF resources - in a policy set aside for the bureau. However, along with most other bureaus' ongoing General Fund allocations, the amount has been reduced by 5%, or \$400,000, due to the need to realize resources to support the implementation of the City's new form of government resulting from voter-approved Charter reforms.

If ultimately allocated to the bureau, the Housing Bureau would use \$3.7 million of the General Fund resources to fund 19.73 FTE in 32 position types working in the bureau's single-family, multifamily, administration, business

operations, equity, and communications programs that are currently funded by TIF resources in its base budget next year. Furthermore, \$1.5 million would be directed towards indirect operational support and internal services costs that have also been paid for by TIF resources. Thus, the returning General Fund resources would free up \$5.2 million of TIF resources to support the bureau's Homeowner Access and Homeowner Retention programs, as well as new multifamily development and rehabilitation projects.

The remaining \$2.4 million would be dedicated to the following four initiatives:

- \$400,000 for a contract for master planning to redevelop the Ellington Apartments, home to 263 low-income households, which currently has significant capital needs;
- \$1.0 million for grants to affordable housing providers, mainly in the Central City and North/Northeast, for urgent property management needs that threaten the safety and sustainability of affordable housing in those key areas of the city. The Housing Bureau anticipates grants to ten to fifteen providers in the range of \$50,000 to \$100,000 each;
- \$500,000 for Eviction Legal Defense (ELD) to prevent 80 to 120 households from falling into homelessness. The funding level for ELD would otherwise drop to \$450,000 next year, from the current year allocation of about \$2.0 million, due to the expiration of American Rescue Plan (ARP) Act and federal Emergency Rent Assistance (ERA) funding for programs that stabilize households in their homes;
- \$500,000 for home repair grants to support around 33 additional households with grants of \$15,000 to help meet increased demand because of the recent ice storm, particularly for homeowners with low incomes.

Due to the upcoming expiration of TIF and bond funding as detailed in the Key Financial Issues section above, CBO recommends the allocation of the ongoing General Fund resources to the Housing Bureau as intended by City Council when it directed them to be placed in the set-aside for the bureau. With the additional resources, the bureau will be able to continue its mission to develop affordable housing until other large potential funding sources, such as those from a new housing bond or additional TIF districts, become available.

CBO notes, though, that the budget note also directs the Housing Bureau, along with Prosper Portland, to engage in and complete a third-party evaluation of TIF districts associated with the revenues returning to the General Fund for Council to better understand how outcomes aligned with the original intent of district creation. Prosper Portland has reported that as of early March 2024, the report that an outside consultant was engaged to complete is almost finished, and the agency plans on reporting to Council on the subject on April 10th, 2024. Another consideration for City leadership is that if allocated to the Housing Bureau, the \$7.6 million would be the largest appropriation of ongoing General Fund resources from a single funding request in many years, and the effects of this on the forecast would be doubled if Prosper Portland, which is also requesting the same amount from a set-aside for that agency, is also allocated the requested amount. Thus, Council should be mindful of the trade-offs of allocating the funding to these bureaus during a time when the City is implementing the new government structure associated with Charter change, facing large financial obligations that are legally mandated, and many bureaus are lacking the resources needed to continue providing services at previous levels.

If City leadership decides to not allocate the requested amount to the Housing Bureau, the bureau has indicated that there would be no layoffs of staff in FY 2024-25, as it would still have enough TIF revenues to support them next year, but there would necessarily be layoffs in the year after. If the bureau is allocated the full amount of ongoing resources, but the City needs to retain a portion on a one-time basis for utilization in other bureaus or programs, the Housing Bureau would likely prioritize resourcing personnel and internal service provision, with the \$2.4 million for other uses (as bulleted above) having a lower priority, particularly the master planning for the Ellington Apartments, which is a truly one-time expense.

CBO Recommendation: \$7.6 million, ongoing General Fund resources | 0.00 FTE

Funding Request - Clean Energy Improvements and Rehabilitation of Existing Regulated Multifamily Rental Affordable Housing – DP 19375

The Housing Bureau is requesting \$40 million of Portland Clean Energy Fund (PCEF) resources over four years (\$10 million each year) to preserve and update existing regulated multifamily rental housing. The requested resources will be matched with funds with other Housing Bureau investment sources to preserve existing housing stock currently regulated by the bureau or the Oregon Housing & Community Services. Without this additional resource capacity, the Housing Bureau indicates that it will be unable to sustain service levels in the current development pipeline and effectively meet the preservation needs of an estimated five to seven aging projects per year with significant capital needs and/or expiring regulatory agreements. The requested \$10 million in PCEF would support energy efficiency and renewable energy updates for approximately 300 units alongside other Housing Bureau-funded capital improvements.

The Housing Bureau will direct PCEF resources to projects that the bureau identifies as high priority for preservation of affordable housing stock. Through the program, owners of affordable properties can request PCEF for eligible energy efficiency and renewable energy upgrades (e.g., high efficiency electric heat pumps, ventilation systems, water heaters and appliances; solar generation and storage; air sealing and insulation) and the Housing Bureau's funds for other building improvements not covered by PCEF. As an example, a project can receive the Housing Bureau's funds for roof replacement, seismic bracing, and bathroom and flooring upgrades, as well as PCEF funds for the HVAC system, water heaters, kitchen appliances, and air sealing/insulation. The Housing Bureau notes that combining PCEF and the bureau's funds in this manner streamlines the application and documentation processes by folding both funding sources into one, reducing City staff time and the burden for the applicant. The program creates time and cost efficiencies for construction as the owner can work with the same general contractor for both PCEF and the Housing Bureau's scopes, and projects can combine or best sequence the work according to building location, major system, or construction trade. Disruptions to low-income tenant populations are minimized due to the construction efficiencies. While CBO recommends funding this request, it also notes that there could be a financial risk created as there is no guarantee that PCEF funding will continue after four years.

CBO Recommendation: \$40.0 million (over four years, or \$10.0 million per year), Portland Clean Energy Fund Revenue | 0.00 FTE

Bureau of Planning and Sustainability

Evolution and Expansion of the Portland Clean Energy Fund

The Portland Clean Energy Fund (PCEF) and associated staff reside in the Bureau of Planning and Sustainability under the Sustainability and Climate Action program area. The PCEF program includes expenses and revenues connected to the City's collection of the Clean Energy Surcharge, administration of the PCEF grant program, and outgoing grant resources. Revenue for PCEF is generated through proceeds from the Clean Energy Surcharge (CES), which is a one-percent large retailer business surcharge that is estimated to provide approximately \$200 million FY 2024-25 and in future years. The resources and work of this fund has generated significantly more revenue than expected, which has also generated much public attention and scrutiny.

The Bureau of Planning and Sustainability brought forward substantial code changes in the Fall of 2022 which aimed to maintain the intent of the original ballot measure to fund community led projects that address climate change and advance racial and social justice. These code changes included: changing the role of the PCEF committee, changing the allocation models through the Climate Investment Plan (CIP), changing recipient eligibility, and changing the administrative cap.

The code change to expand the recipient eligibility generated significant public and internal discussion as it relates to the process for PCEF allocations. Council approved code changes that expand who can receive funding and provided clear guidance about the eligible organizations and businesses that can apply for roles that

implement the initiatives. Prior to the change, community-based organizations (CBOs) and non-profits were the sole eligible recipients of PCEF resources. Under the amended code, CBOs and non-profits are still eligible to receive PCEF funding, but the ordinance allows funds to be distributed through contracts in addition to grants, makes government entities eligible to receive funds, and allows for-profit businesses to be eligible contract recipients to help administer programs.

These code changes mean that PCEF resources can support City partners and programs that have projects that align with the stated priorities laid out in the developing CIP. Outside of managing the waste and recycling utility, BPS has been a planning and policy development bureau but has not delivered services directly. PCEF, along with some programming that has recently been transferred to the bureau such as the graffiti reduction program (discussed below), are significantly changing the type of work the bureau does.

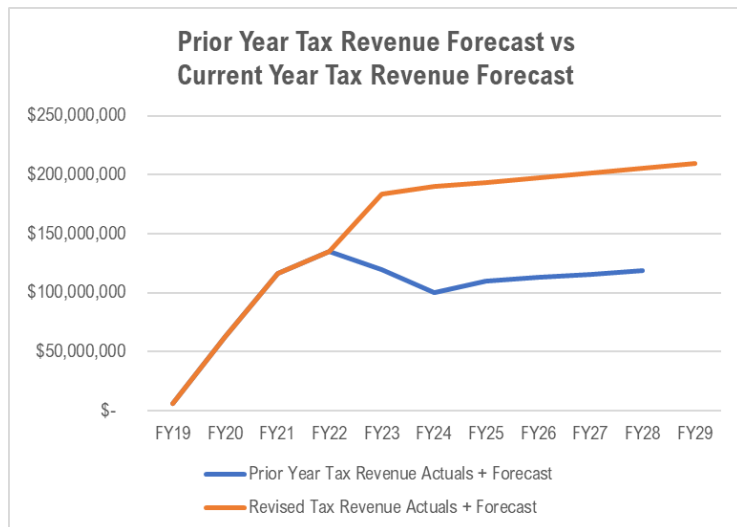
The CIP is a document that reflects PCEF’s goals, outcomes and strategies. City Council adopted the first version of the CIP in July 2023, which includes two significant programs managed by City bureaus:

1. The Portland Housing Bureau took on work to improve efficiency and renewable energy upgrades in new and redeveloped regulated affordable multifamily housing through \$60 million over five years.
2. The Portland Parks & Recreation bureau took on work to grow an equitable tree canopy through \$40 million allocated over five years.

The CIP represented an unprecedented landmark investment on one of the City’s top priorities to address climate change and associated social inequities \$750 million over five years. For more information, [click here to see the adopted Council ordinance](#) and [here to see more information about the CIP’s five-year funding road map](#). The CIP was based on a forecast for PCEF revenue that was completed as part of the FY 2023-24 budget, which projected mild revenue growth for future years. Even with mild projected revenue growth, the PCEF fund had a large fund balance that was taken into consideration as Council adopted the CIP in Fall 2023 as the primary way to spend it down.

It turned out that the CIP investments would not spend down the large fund balance, as updated forecasts since the adoption of the CIP have yielded an additional \$540 million to invest in the region’s Climate initiatives. These resources were identified based on an updated forecast completed by the City Economist, who took over the PCEF forecast in 2023 from the Bureau of Revenue and Financial Services.

The updated forecast showed that the Clean Energy Surcharge (CES) revenue is *conservatively* expected to be \$540 million *higher* than previously projected over the next five years. The chart on the right shows the difference between the prior year tax revenue forecast compared to the revised current year tax revenue forecast. The orange line represents updated numbers starting in FY 2022-23, including the FY 2022-23 actual CES revenue. The program had previously estimated the FY 2022-23 revenue to come in at \$120 million, but instead saw \$183.5 million in revenue. The program had previously estimated that the City’s current fiscal year, FY 2023-24, would bring in \$100 million in revenue but that has now been updated to \$190,000,000. The revised forecast also includes estimates for FY 2028-29 for \$209.8 million. For more information on the economic factors that led to the new projection, [see this memorandum from the City Economist to Council](#).



When voters adopted the CES in 2018, the fund was projected to generate \$44 to \$61 million annually. In each

full fiscal year starting in FY 2019-20, the tax has brought in more revenue than the high end of projections made prior to the ballot measure passing.

After the revenue forecast was updated, PCEF staff in BPS and the PCEF committee planned to allocate the resources in at least two stages. During stage one, PCEF solicited proposals from City bureaus for PCEF resources. Proposals needed to have a nexus with reducing or sequestering greenhouse gas emissions and produce demonstrable community benefits. To narrow down the potential projects, PCEF staff determined that three additional criteria should serve as part of the methodology to evaluate projects: 1) Ability to offset General Fund resources, 2) “Shovel ready” projects that already existed in a Capital Plan, and 3) “Implementation ready” with existing program capacity and scope.

The City presented the committee with a vetted set of projects that they voted on with some amendments. Bureaus then entered the amounts represented by those projects in their requested budgets. Through the budget process, Council can accept, amend, or reject the Committee’s recommendations. PCEF staff will then bring the CIP back to City Council to amend to reflect the PCEF funding that was allocated in the budget after the budget is adopted.

The projects included in the first round of allocations are discussed below. The FY 2024-25 Requested budget includes decision packages that reflect \$198.9 million of additional PCEF revenue going to City programs. Six bureaus had projects with a climate nexus approved either for one-time projects or a five-year allocation of funding for programs. Most bureaus requested year one of five of its five-year allocation with the exception of “Tree Care and Preservation,” which requested the full amount in year one.

Bureau	Decision Package Name	Revenue Ongoing	Revenue One-Time	Grand Total
Office of City Operations	CP - CityFleet PCEF Green Fleet Transition		\$8,184,774	\$8,184,774
Office of City Operations Total			\$8,184,774	\$8,184,774
Bureau of Environmental Services	PCEF Proj #12 - Stormwater management, Blue/Green Infrastructure, and Revegetation	\$10,656,612		\$10,656,612
	PCEF Proj # 13 - Trees on Private Property	\$1,400,000		\$1,400,000
	PCEF Proj #11 - Watershed, Natural Systems, Restoration and Biological Sciences	\$3,676,228		\$3,676,228
Bureau of Environmental Services Total		\$15,732,840		\$15,732,840
Portland Housing Bureau	Clean Energy Improvements and Rehabilitation of Existing Regulated Multifamily Rental Affordable Housing	\$10,000,000		\$10,000,000
Portland Housing Bureau Total		\$10,000,000		\$10,000,000
Portland Parks & Recreation	Mt. Scott Community Center HVAC - PCEF		\$0	\$6,200,000
	Arborist Trainees - PCEF	\$1,050,000		\$1,050,000
	Sustainable Leaf Blowers - PCEF	\$1,600,000		\$1,600,000
	Tree Care and Preservation - PCEF	\$100,000,000		\$100,000,000
Portland Parks & Recreation Total		\$102,650,000	\$6,200,000	\$108,850,000
Portland Bureau of Transportation	PCEF Add Back	\$18,627,196	\$30,615,045	\$49,242,241
Portland Bureau of Transportation Total		\$18,627,196	\$30,615,045	\$49,242,241
Water Bureau	PCEF Projects	\$500,836	\$6,480,000	\$6,980,836
Water Bureau Total		\$500,836	\$6,480,000	\$6,980,836
Grand Total		\$147,510,872	\$51,479,819	\$198,990,691

It is worth noting that the “Revenue Ongoing” category is not truly ongoing at this point, rather it serves as a mechanism for bureaus and the public to track requests that have received five-year allocations. While all requests for “Revenue Ongoing” programs could continue beyond the five-year allocation window, they will be reevaluated in a future process since the CIP is established on a five-year timeline.

For more information on each of the programs included above, [click here for a high level project summary and more information about the community benefit for each project along with the total five year allocation.](#)

PCEF Impact on BPS Staff & Internal Overhead Model

While the growth of PCEF revenue has touched many bureaus in the FY 2024-25 budget process, it has also affected BPS’s budget and staffing. The bureau’s total position authority has grown primarily due to PCEF. This growth is occurring along-side funding challenges the bureau faces in other programs with more limited funding, particularly as one-time funding from American Rescue Plan Act (ARP) resources and General Fund are set to expire soon.

The mechanism by which BPS has access to new resources is through the Administrative Cap as outlined in the PCEF charter. In the Fall of 2022, Commissioner Rubio, in conjunction with her staff, submitted code changes to PCEF that were approved by Council. Part of those changes included changing the administrative cap to support PCEF services from 5% to 12% (Cite PCC 7.07.040 E.). This percentage is based on applying the percentage to the

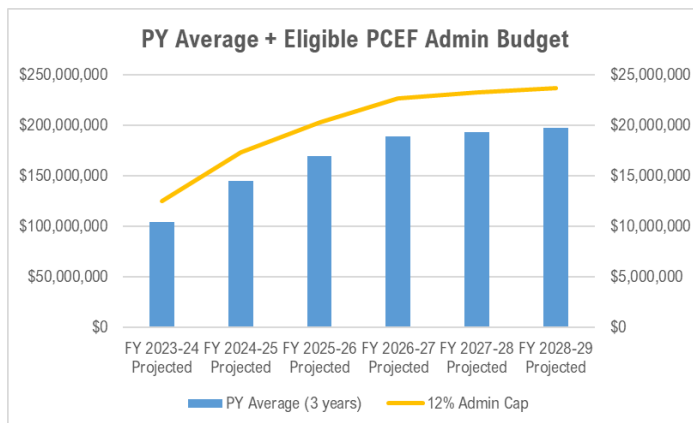
average three previous years of revenue for PCEF, which was \$104,664,814 in the prior fiscal year. The actual revenue numbers lag by a fiscal year because corporations submit their taxes across the calendar year in a way that does not cleanly map on to the City’s budget process. This is why the three years of actual revenue, FY 2019-20, FY 2020-21, and FY 2021-22 inform the FY 2023-24 Administration cap.

Fiscal Year	FY 2023-24 PCEF Revenue Calculation Actuals	FY 2024-25 PCEF Revenue Calculation Actuals
2019-20	\$62,655,771	N/A
2020-21	\$116,321,343	\$116,321,343
2021-22	\$135,017,328	\$135,017,328
2022-23	N/A	\$183,451,304
Total	\$313,994,442	\$434,789,975
Average	\$104,664,814	\$144,939,991
12% Cap	\$12,559,777	\$17,391,599

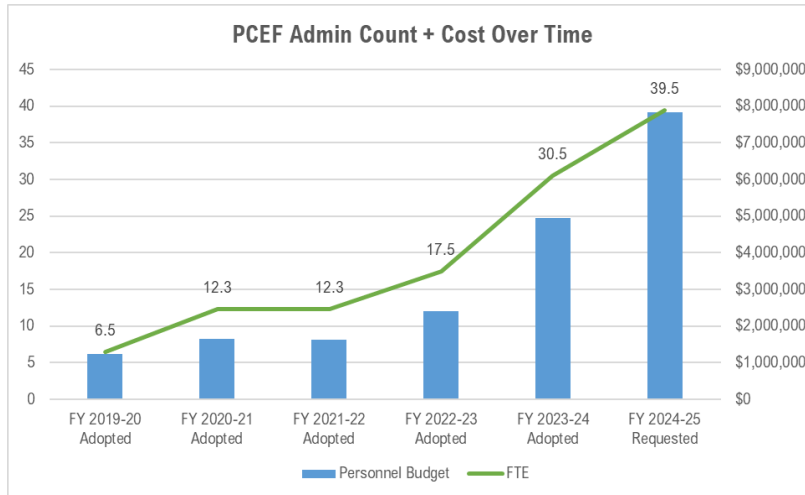
The average three previous years of revenue jumps to \$144,939,991 in the FY 2024-25 budget year planning as the lower FY 2019-20 number drops off and the notable revenue from FY 2022-23 is added to the calculation. This represents a 38.4% increase for eligible PCEF administration-related costs. If the 12% administrative cap is applied to the number, the code amendment allows \$17,391,599 to be set aside to manage PCEF.

It is notable to mention again that the most recent revenue projection for the CES surcharge amended the previously projected revenue for FY 2023-24 from \$100 million to \$190 million.

The PCEF program currently has 30.5 staff which is included in the \$4,939,170 million dedicated to supporting administration. Overall, the bureau has \$12,034,950 of expenses planned in the PCEF Administrative Expenses subfund, so this funding request ensures additional staffing does not violate PCEF statute. It gets close to the cap determined by last fiscal year’s three-year historical average of \$12,559,777.



This chart shows the projected eligible PCEF administration budget over the next five years based on the revised forecast as Council should expect future requests for more positions given projected available resources. The numbers on the left represent actual and projected CES revenue, while the numbers on the right represent the three previous year average revenue used to determine the 12% administration cap. The revenue projection begins to smooth out in FY 2026-27 through FY 2027-28. Based on the revised projection, the bureau should expect to have a PCEF Administration budget around \$23.7 million.



This chart shows how the PCEF administration personnel budget has grown since the program’s inception. The notable growth between FY 2022-23 and FY 2023-24 is largely due to anticipated workload related to the Climate Investment Plan. PCEF also added staff to help manage further allocation of PCEF resources and support grantees and City bureaus with projects that align with PCEF’s core mission. In light of the resources provided through the Administrative Cap, BPS has submitted a decision package

funded by PCEF resources that requests 9.0 new FTE which includes 1.0 Manager I, 1.0 Analyst III, 1.0 Analyst II, 1.0 Coordinator III, and 5.0 Coordinator IIs totaling ~\$1.48 million. These positions would help with existing and anticipated program workload related to managing and implementing future strategic programs, as well as increase financial and performance management capacity as noted in the recent PCEF code update (Ordinance No. 191046). These positions would support the recently adopted Climate Investment Plan (\$750 million over five years) as well as help allocate an additional \$540 million over the next five years as discussed above. If this package is approved, the total FTE for the program would be 39.5 and the personnel costs increases to \$7,832,793, which is firmly within the administrative cap.

Further, the bureau also uses the Administrative Cap to help fund the bureau’s internal overhead model. BPS has an internal services team funded by an overhead model where each BPS program pays into a pool to support these functions.^[4] This type of overhead model is common in situations where administrative functions are shared across functions that have multiple funding sources. As BPS moves from being primarily supported by the General Fund to having more substantial non-General Fund resources, it make sense for the bureau to reassess its internal overhead model. The bureau applies the standard federal overhead rate of 36.77% on the administrative portion of the cap to cover centralized administrative functions. This rate is often used by other agencies to provide more efficient services to programs as program-specific demands fluctuate week to week and month to month.

The bureau currently has 21.5 FTE funded through its internal overhead model, which provide a variety of services to the rest of the bureau including: operations functions such as office management; human resources such as hiring and retention support; finance functions including budget, invoice payment, revenue grant tracking, procurement support, contract management support; communication functions including website management, public information requests, media relations; technology services including GIS and data support; and executive functions including the Director and Deputy Director positions that provide leadership and support to the whole bureau. The bureau also centralizes most of their interagency expenses with internal service providers such as the Bureau of Technology Services and Printing and Distribution in this cost center.

Based on how the bureau’s internal overhead model works, adding 9.0 new FTEs in the PCEF program allows the bureau to charge an additional \$598,788 to PCEF resources, which are included in the bureau’s decision package. The bureau plans on using these resources to fund its equity team consisting of three positions that was previously funded with General Fund resources but has been moved into the bureau’s internal overhead model as part of the bureau’s strategy to meet the five percent General Fund constraint per the mayor’s guidance.

Given that the workload has shifted dramatically for PCEF, CBO recommends the bureau’s funding request for more PCEF staff and resources to support their internal overhead model. The bureau should pursue all opportunities to improve “throughput,” a phrase usually applied to capital projects but can aptly be applied to PCEF revenue. This request for 9.0 additional FTEs will presumably improve fiscal sustainability and financial

management of the PCEF resources per FIN 2.02 and FIN 2.06. While these resources are administrative in nature, the bureau has built in ways to quantify the effect of its work in the region through performance measures. This work also has an indirect but important nexus to promote the City's equity goals. Last but not least, administrative support for PCEF will meaningfully help the City advance its climate goals. This request aligns with the City's work on several fronts – the City's Climate Emergency Declaration, the 2035 Comprehensive Plan, and the bureau's FY 2022-25 Climate Emergency Workplan.

This funding request represents a strategic way to leverage PCEF resources to alleviate some financial pressure on BPS, even as the bureau overhead staff is expected to provide more administrative support for the program as it matures. PCEF does have staff dedicated specifically to implement the program, *and* there are inevitably bodies of work performed outside of the program that directly benefits the program, or, at the least, does not warrant a full-time staff within PCEF.

Graffiti Program Funding Challenges

The Graffiti Abatement program sits in the BPS's Sustainability and Climate Action program area. The program takes in clean-up requests and distributes work to contractors and volunteers. The program works with the Public Environment Management Office (PEMO), which prioritizes community engagement and identifies strategic needs related to livability challenges facing the City.

Along with PEMO, the Graffiti program staff attend neighborhood Problem Solver meetings, respond to attendees' concerns, and plan coordinated cleanup efforts. They also work with PEMO to identify properties, contact property owners, maintain effective price agreements with contractors, and dispatch contractors for work. Further, both programs use the same BPS-managed contracts to pay for graffiti abatement. BPS primarily focuses on assisting the most in-need property owners including small business, non-profits, and residential properties, with most work occurring at street level to limit costs. Other instances of graffiti outside the scope of BPS programming are addressed by PEMO, typically in targeted high-visibility areas or to assist other bureaus with cleanup work as needed.

The Graffiti abatement program was transferred from Civic Life to BPS during the FY 2022-23 Fall BMP with the aim to simplify and consolidate the decision-making structure related to addressing livability concerns in the City. BPS received \$710,000 in ongoing General Fund for the program when it transferred from Civic Life. The program also received an additional 1.0 limited term program manager through an interagency agreement with the PEMO.

The resources for several contracts that provide graffiti abatement services are covered with one-time resources. The bureau carried over \$1.5 million in one-time funds into FY 2023-24 and expects resources to be largely depleted by the end of the current fiscal year. Council will need to determine how to align service and funding levels beyond FY 2023-24.

The Graffiti Abatement program works closely with the Portland Environment Management Office (PEMO). They both attend neighborhood Problem Solver meetings, respond to attendees' concerns, and plan coordinated cleanup efforts. They also work together to identify properties, contact property owners, maintain effective price agreements with contractors, and dispatch contractors for work. Further, both programs use the same BPS-managed contracts to pay for graffiti abatement. BPS primarily focuses on assisting the most in-need property owners including small business, non-profits, and residential properties, with most work occurring at street level to limit costs. Other instances of graffiti outside the scope of BPS programming are addressed by PEMO, typically in targeted high-visibility areas or to assist other bureaus with cleanup work as needed.

The ongoing budget need for the program is \$1.6 million annually between staff and contract expenses of approximately \$100,000 per month. The difference between the ongoing General Fund resources and the current program operating budget came from one-time funding. The bureau cites that \$200,000 of the one-time resources will be left by July 2024 leaving an \$800,000 gap.

The Graffiti program is working to update its performance measures. While not formal performance measures, the program tracks several outcomes including:

- Square feet of graffiti abated
- Number of Graffiti Abatement Letters that were mailed out,
- Graffiti cleanup supplies given to community members to abate graffiti
- Number of graffiti waiver forms we receive from property owners
- Number of graffiti reports that are cleaned by owners,
- Number of graffiti reports sent to other partners, such as PBOT, ODOT, Parks, Tri-Met, etc.
- Number of graffiti reports received from the public

The Graffiti Abatement program estimates they can allocate \$100,000 per month to assess and assist property owners with responding to graffiti. If they were to get an additional staff as put forward in their requested budget, the bureau estimates they could increase graffiti abatement throughput to the community to \$125,000 a month.

Per guidance, the bureau has not prepared a request for new ongoing resources but is looking for support from the Mayor's Office to obtain State resources or find one-time resources in FY 2024-25. The bureau is rightfully protecting positions that administer graffiti-removal contracts, but without resources to fund actual graffiti work, these positions and existing resources will have a limited impact on Portlanders.



FY 2024-25 Budget Work Session

Community and Economic Development Service Area

2/13/2024



Community and Economic Development Service Area

Commissioner Carmen Rubio

Mayor's Budget Meeting – February 2, 2024



Agenda

- Commissioner Remarks – 5 mins.
- Service Area Overview – 15 mins.
- Portland Housing Bureau – 20 mins.
- Prosper Portland – 20 mins.
- Spectator Venues – 10 mins.
- Planning & Sustainability – 20 mins.
- Development Services – 30 mins.
- Single Permitting Authority – 30 mins.
- Questions & Discussion - 20 mins.





Commissioner-in-Charge Remarks

Carmen Rubio

Team Members



Donnie Oliveira

Director

Planning and
Sustainability



Kimberly Branam

Executive Director

Prosper Portland



David Kuhnhausen

Interim Director

Bureau of Development
Services



Helmi Hisserich

Director

Portland Housing Bureau

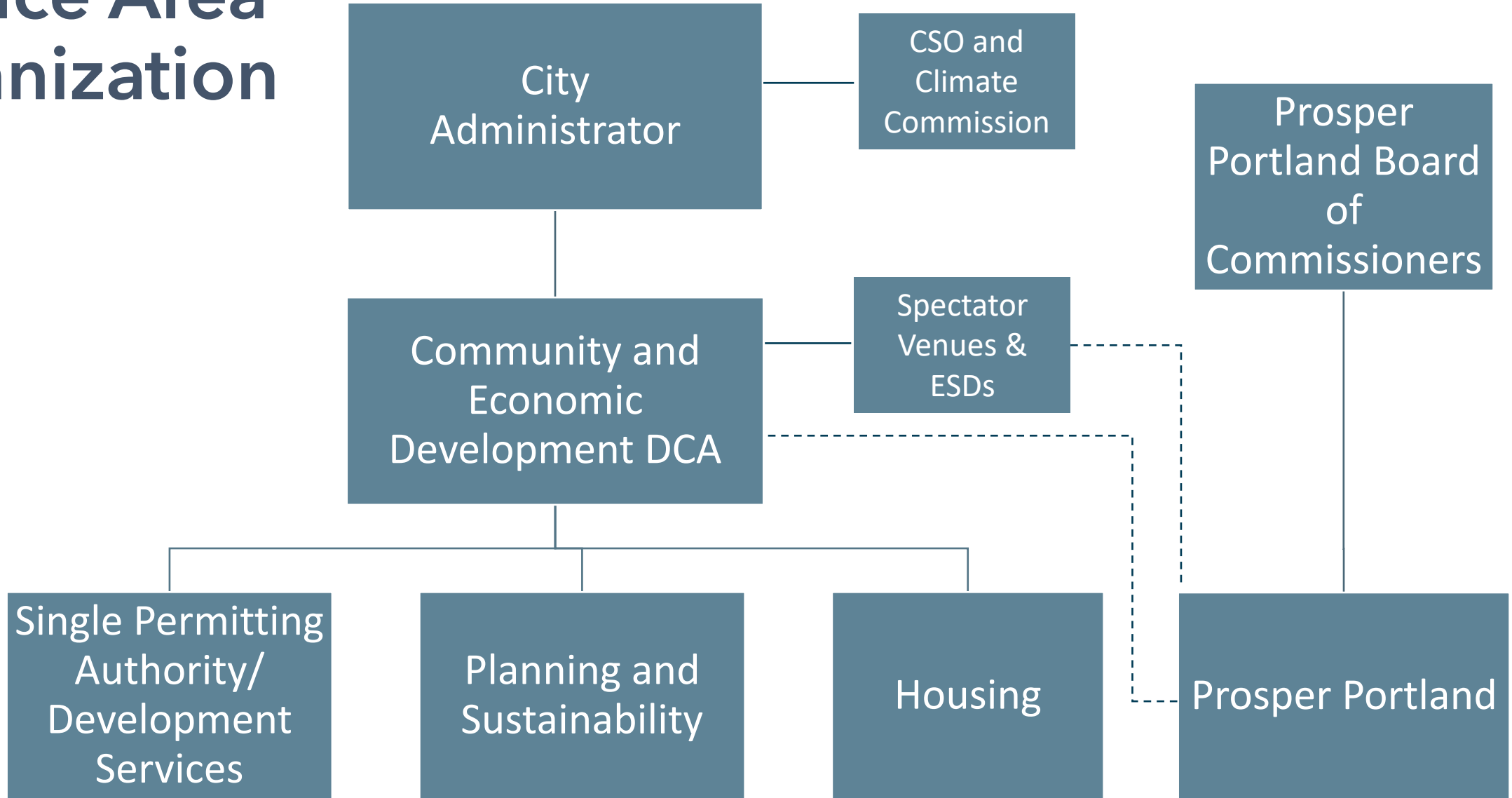


Michael Buonocore

Interim Deputy Director

Portland Housing Bureau

Service Area Organization



Service Area Functions



----- **Racial Equity** ----- **Partnership** -----

Community & Economic Development

Key Strategic Priorities –Year Ahead

1 Increase Housing Stability & Production

2 Cut Climate Pollution and Build Community Resilience

3 Promote Inclusive Economic Recovery and Growth

4 Design and Implement Single Permitting Authority

5 Evaluate and Design Approach to Shared Services

----- Racial Equity ----- Partnership -----

Mayor's Budget Guidance

Prosper and Housing:

Returning Tax Increment Financing (TIF) funds set-aside

Changes in expected revenue, including newly formed TIF districts

Planning and Sustainability:

Proposals that are eligible for PCEF dollars – and future opportunities

Development Services and Permitting :

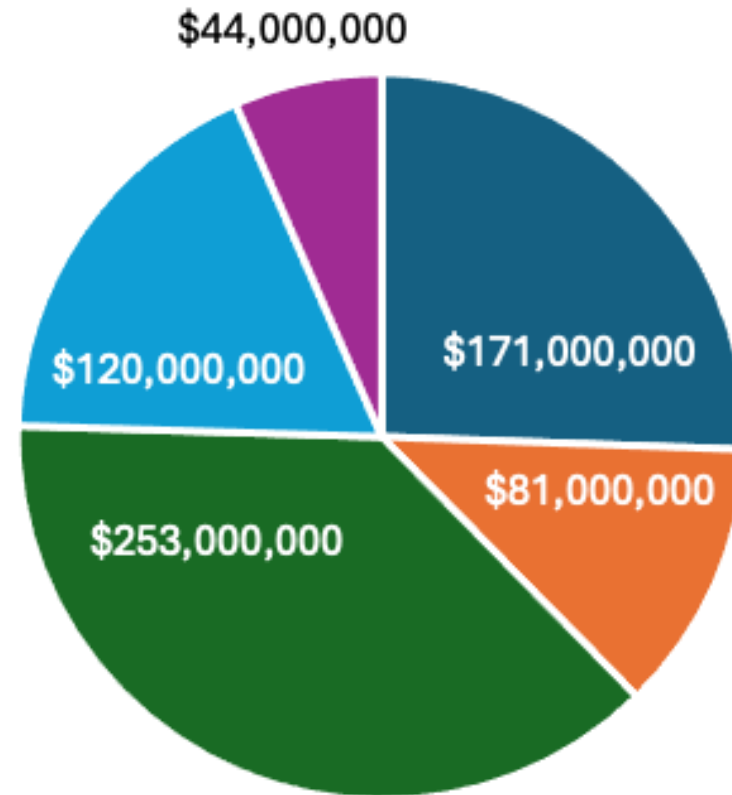
Options that minimize impact on permitting timelines.

FY 2024-25 Requested Budgets for Service Area

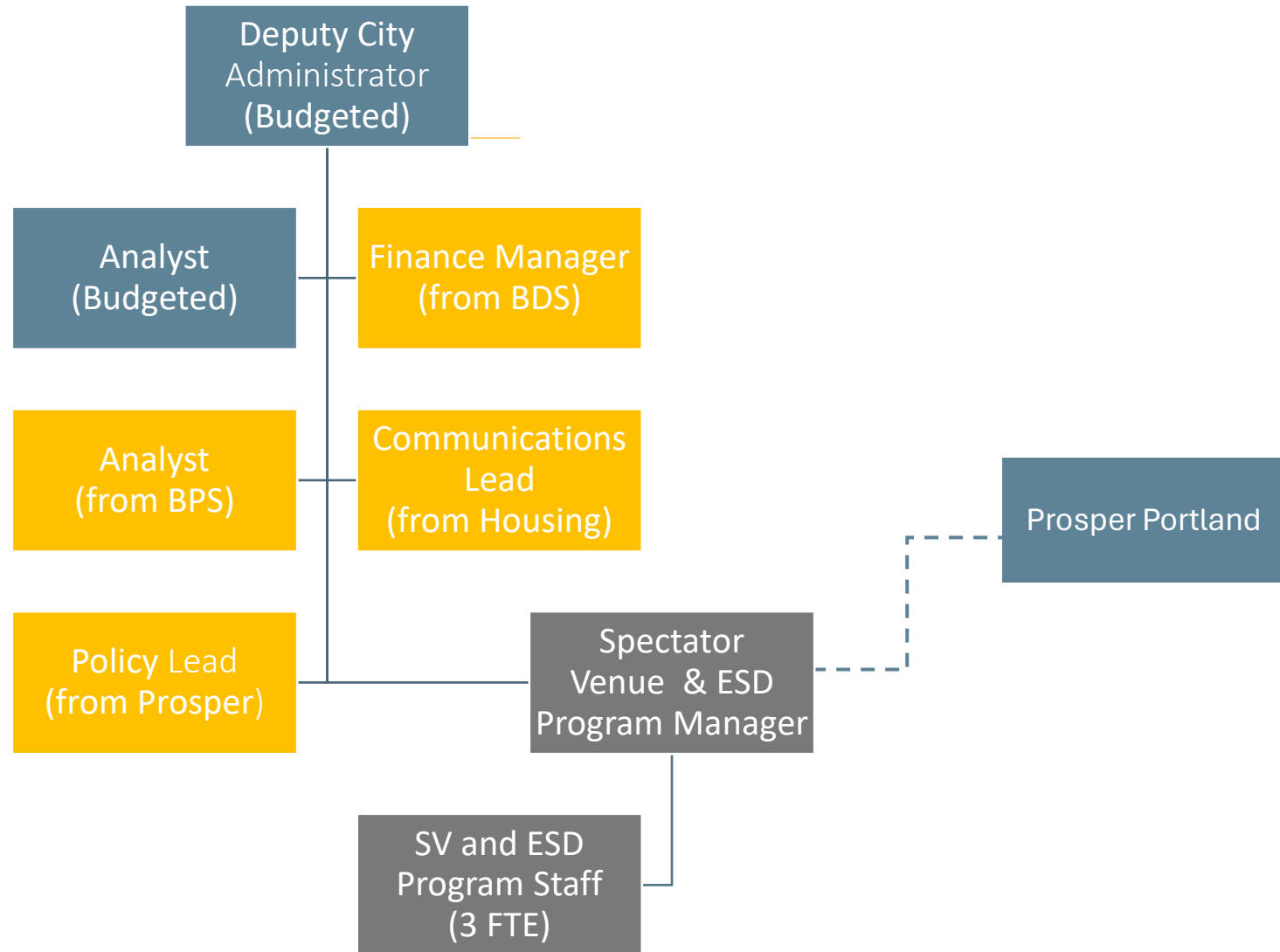
(Excludes Fund End Balances)

TOTAL \$669M, 628 FTE

- Planning and Sustainability
- Development Services
- Housing
- Prosper Portland
- Spectator Venues



Initial DCA Office Structure





Portland, Oregon

Portland Housing Bureau

FY 2024-25 Requested Budget

FY 23/24 Key Accomplishments

- **Inclusionary Housing Recalibration**
to review and make necessary adjustments to the Inclusionary Housing program
- **Affordable Housing Preservation Solicitation**
to award \$4.825 million to preserve 161 housing units
- **Broadway Corridor Solicitation**
to develop the northern half of Block 4, (referred to as Parcel 4A) located on the former Portland U.S. Postal Service site within the Broadway Corridor.
- **Metro Bond Opportunity Solicitation - Last Gap**
to award up to \$28.8 million in capital funding for affordable housing projects
- **Spend down of Portland Bond and Metro Bonds**
to open 500+ new housing units opening this year with 3,900 new housing units in the development pipeline



Challenges

Looming Funding Cliff

Expiring TIF districts and fully allocated housing bond resources create a budget cliff in the next two to three years – these support staffing and the bulk of our affordable housing production funds

Transitioning Federal Programs

Federal Emergency Rent Assistance and ARPA funds will eliminate rent assistance and dramatically reduce eviction legal defense programming

Delayed Impact of Any New TIFs

Returning TIF Set Aside necessary through FY 30-31+ to deploy remaining funds, deliver programs, retain operational capacity as TIF declines and slowly rebuilds

Requested Budget Summary

Resources

\$253M Total

- 40%** Metro and PDX Bonds
- 19%** Tax Increment Districts
- 14%** Federal Grants
- 13%** Housing investment, Construction Excise Tax, and Property funds
- 10%** Portland Clean Energy Fund
- 4%** General Fund

Expenditures

\$253M Total

- 81%** Multi-Family Development
- 5%** Homeownership Access and Retention
- 7%** Renter Services and Property Management
- 2%** Inclusionary Housing and Economic Development
- 5%** Administration

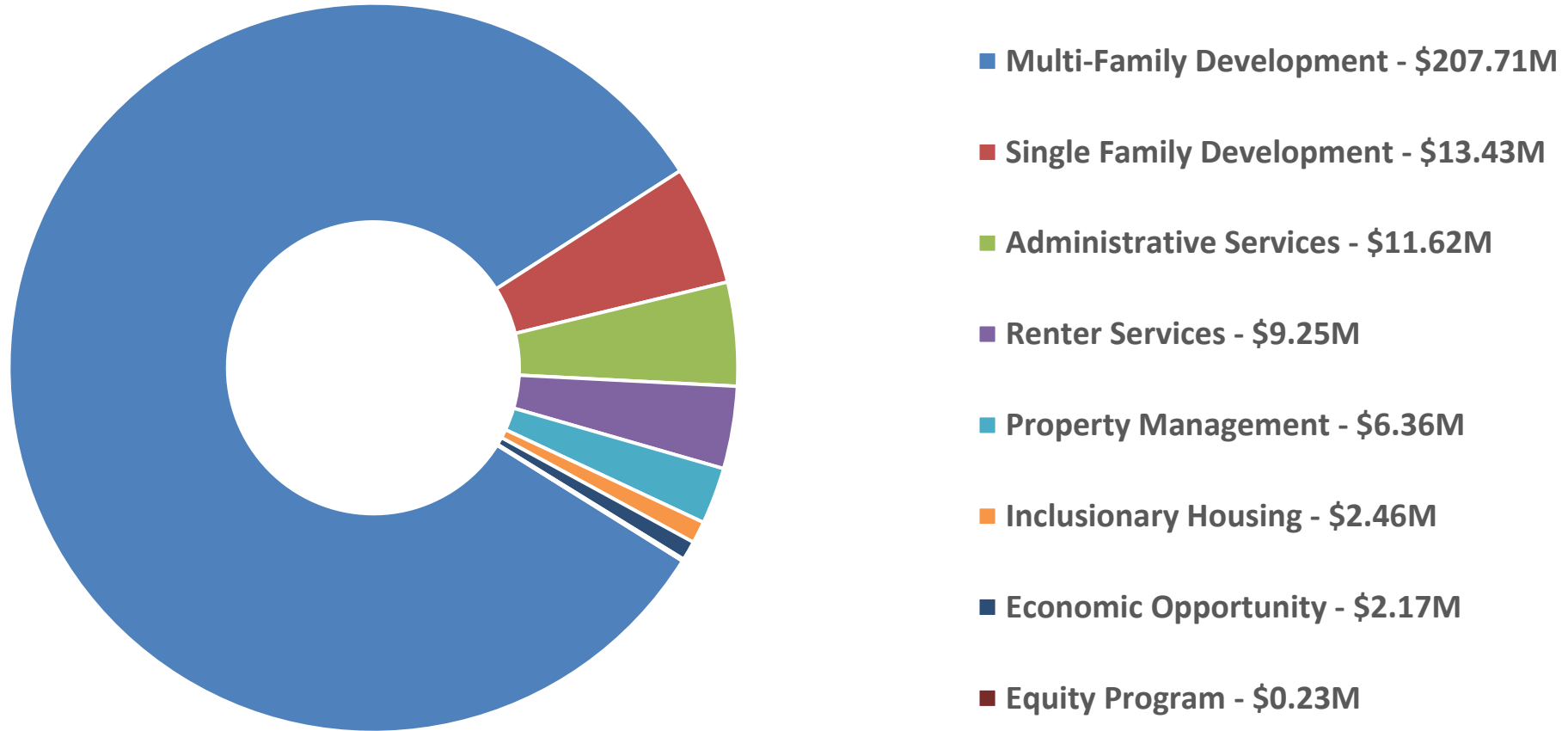
Staff

87 Total

(79 FTE/8 LTE)

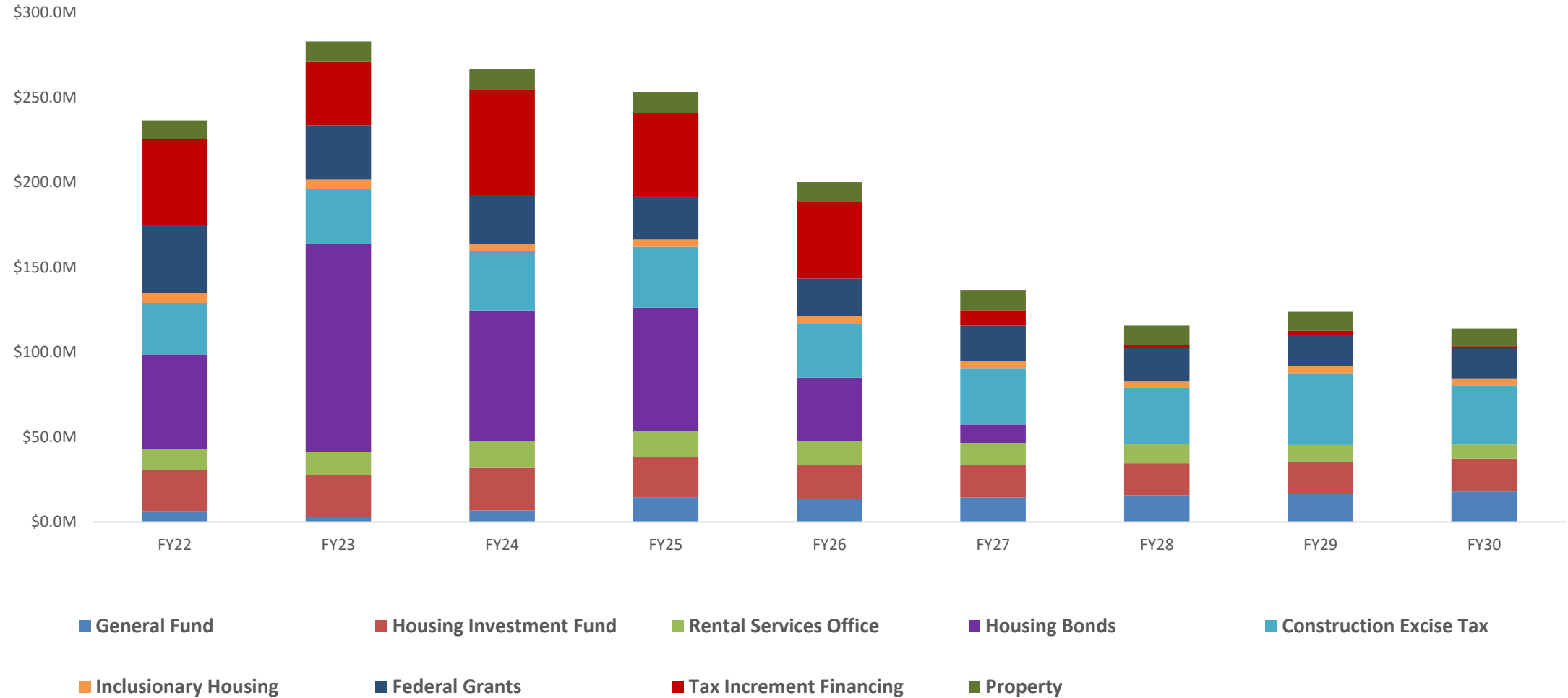
- 42** Equity, Policy & Admin
- 22** Multi-Family Development
- 9** Homeownership Access
- 7** Inclusionary Housing
- 7** Rental Services

Requested Budget By Program Offer



\$253.2 Million – excluding JOHS budget

Resource Challenge Forecast



Returning TIF Supports:

Staffing Cost - \$3.7M

Operational Support & Internal Services - \$1.5M

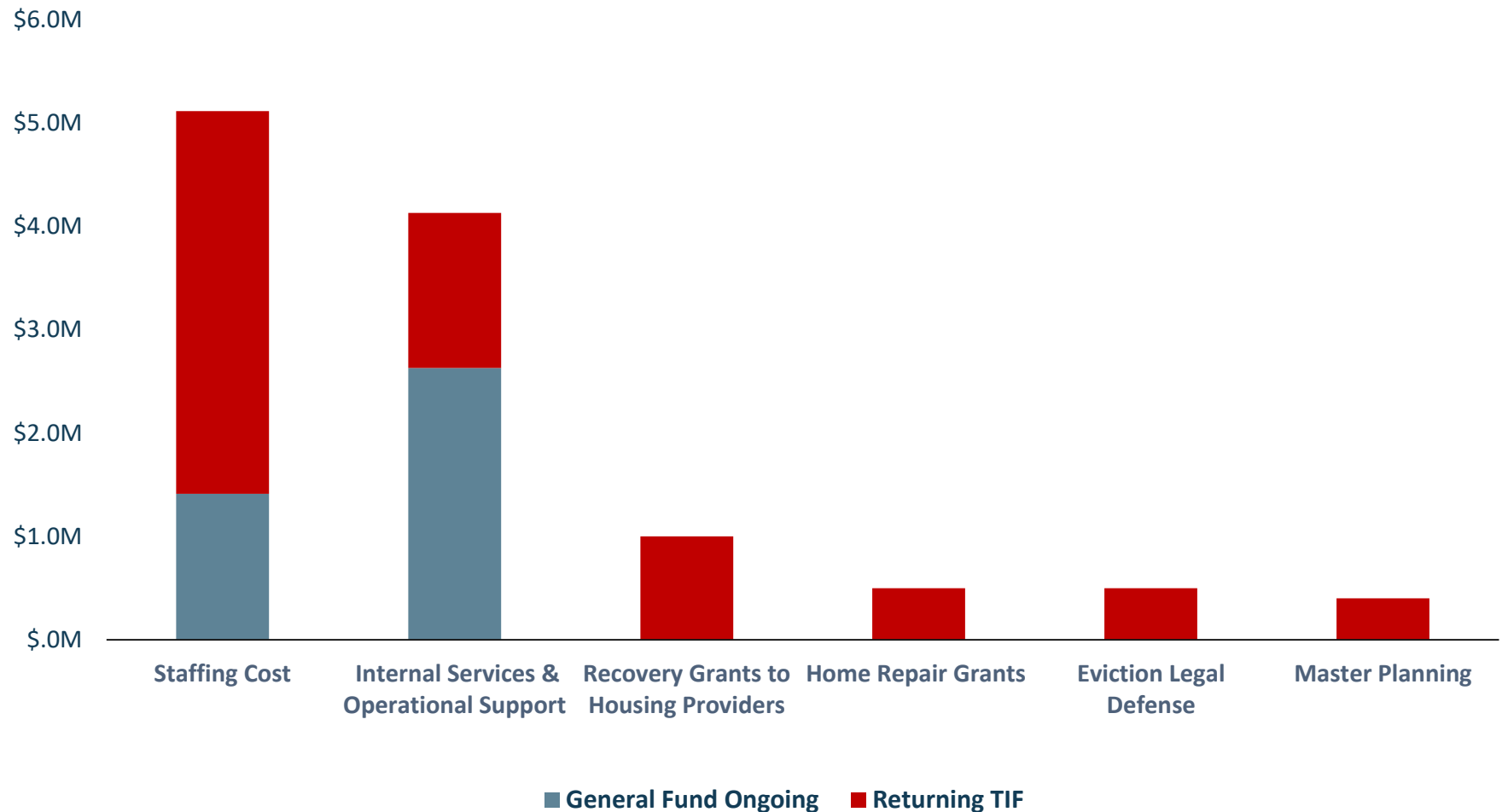
Recovery Grants to Housing Providers - \$1M

Eviction Legal Defense - \$500,000

Home Repair Grants - \$500,000

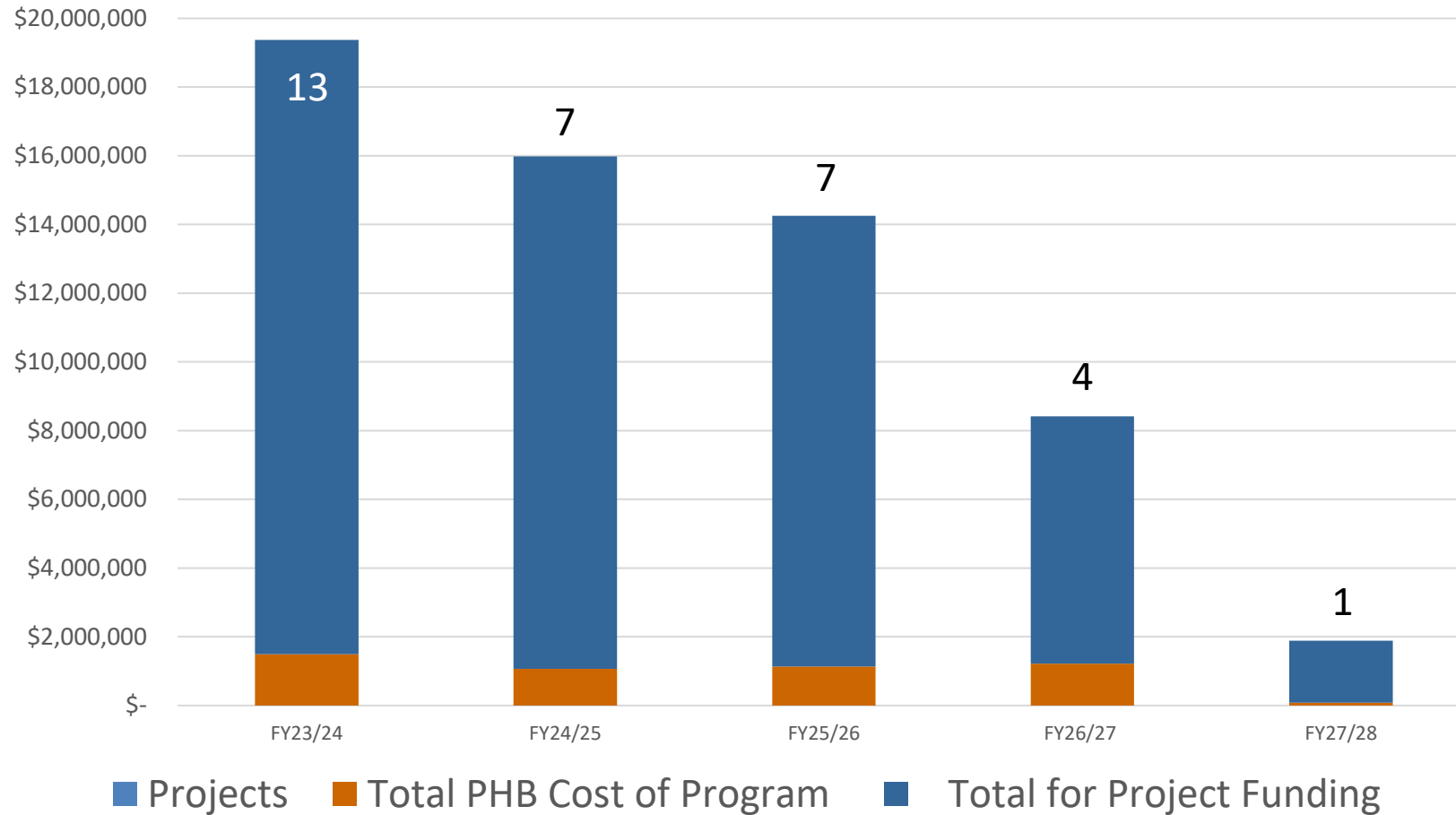
Master Planner – Ellington - \$400,000

Allocation of \$7.6M Returning TIF



PHB-PCEF Intergovernmental Agreement

PCEF \$60 million for 32 projects





Questions and Discussion



Portland, Oregon

Prosper Portland

FY 2024-25 Requested Budget

Requested Budget Summary

Resources

\$282M Total

(net of interfund transfers and tax increment reserved for Housing Set Aside)

- 73%** Tax Increment Districts
- 11%** Strategic Investment Fund
- 6%** General Fund & Cannabis
- 3%** Federal Grants (CDBG/ARPA)
- 5%** Enterprise Zone Community Fund and other resources

Expenditures

\$120M Total

(net of Housing Set Aside)

- 58%** Property Redevelopment
- 23%** Economic Development
- 10%** Administration
- 9%** Infrastructure

Staff

94 Total

(85 FTE/9 LTE)

- 28** Development & Investment
- 25** Economic Development
- 13** Equity, Policy & Comms
- 28** Legal & Admin

Key Outcomes

2,184 Jobs Created/Retained/Placed
Wier/ESCO, Daimler, Revant Optics,
Panic Inc.

1,632 Total Workforce Participants
68% BIPOC Participants

825 Small Businesses Served
67% BIPOC Clients

46% COBID Certified
\$42M MBE-Certified Firms

\$11.5M Business & Property Loans
480 jobs retained/created, 53 housing units

547 Business & Nonprofit Grants
59% BIPOC Restore Grants Recipients

789K ft² Asset Management & Leased
Commercial Space
12 small business tenants

975,317 Event Attendees
285 Events supported by the Office of Events & Film

FY 24/25 Advance Portland Priorities

Business Retention & Growth

Obj 1 Inclusive Economic Growth

Deploy business, retention, expansion outreach and tools. Launch Economic Impact statement process, if approved.



Small Business Support

Obj 2 Equitable Wealth Creation

Seed Office of Small Business with liaisons and Small Biz Hub alongside lending, technical assistance, tenanting support, Repair and Restore Grants

Business District Recovery

Obj 3 Vibrant Central City & Districts

Facilitate events and activations through Office of Events and Film and enhance alignment with ESDs to improve experience of commercial districts citywide.

Inclusive Development

Obj 3 Vibrant Central City & Districts

Complete new TIF district exploration processes with East Portland and Central City partners. Enhance future funding for stabilization, inclusive growth, business retention, housing production and infrastructure.

Challenges

Delayed Impact of Any New TIF

Returning TIF Set Aside necessary through FY 30-31+ to deploy remaining funds, deliver programs, retain operational capacity as TIF declines and slowly rebuilds

Transitioning ARPA Programs

Budget includes following elements of ARPA-supported programs, with range of service impacts:

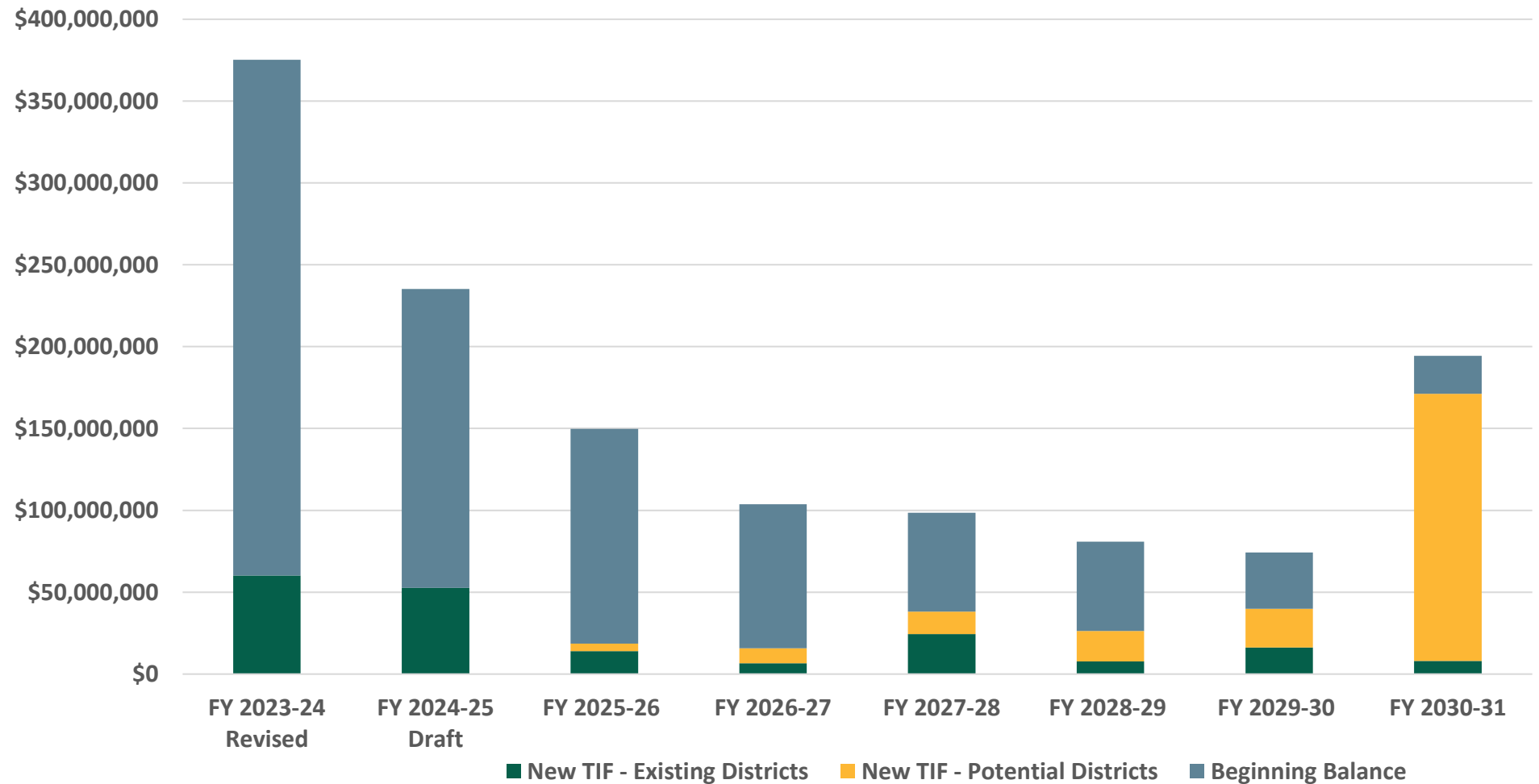
- Office of Events & Film
- Small Business Hub > Small Business Liaisons
- Final months of Restore & Repair grants

Cannabis Fund Volatility

Facing one-time and 22% ongoing reduction to Reimagine Oregon, SEED Fund, and IBRN

Tax Increment Forecast

Current and Potential TIF Districts

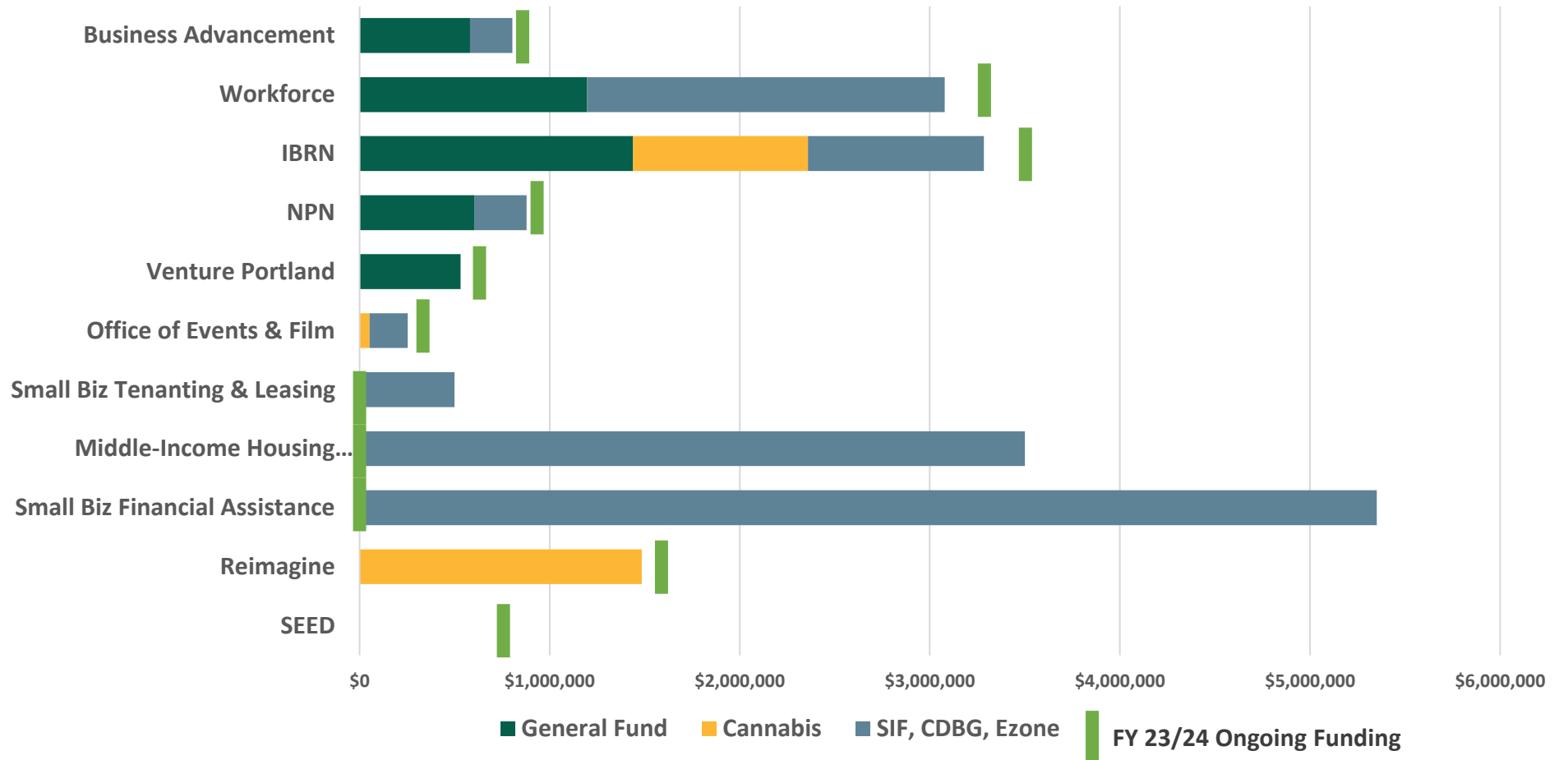


By FY 26-27 Gateway and Cully are only existing districts issuing new TIF resources.

Potential new districts could generate ~\$70M in new TIF FY 29-30; and produce ~\$160M in new TIF in FY 2030-31 when long-term debt can be issued.

Citywide Programs & Investments

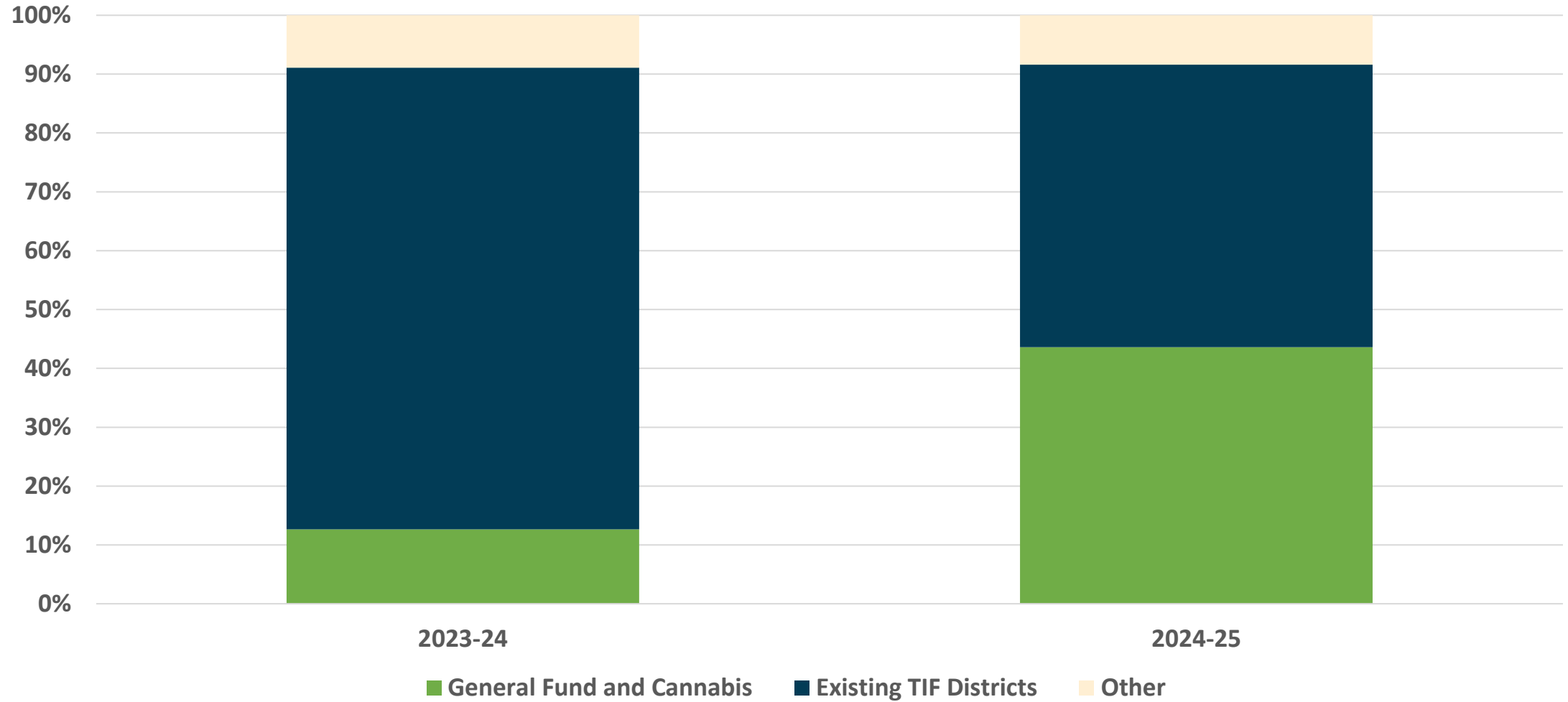
FY24/25 Citywide Programs Budget - \$19M



Key Changes from FY 23-24:

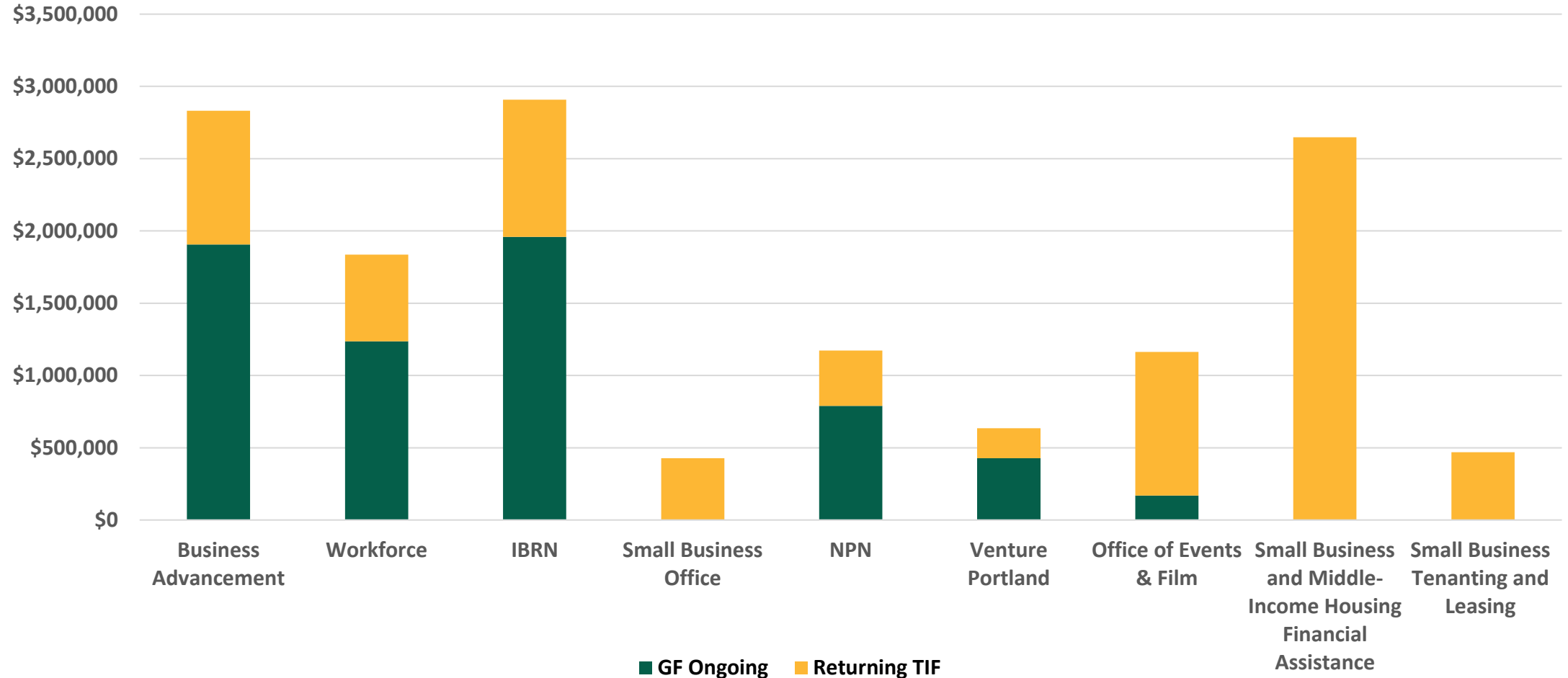
- 7% ongoing cut across programs
- SEED grant program eliminated
- Anticipate up to \$1.6M in ARPA carry over for Repair or Restore Grants, but no new funding.
- Events Office budget includes \$100K for activations. + up to \$500K from Travel Portland (vs. \$2.5M)

Shift in Funding for Operations



Allocation of \$7.6M Returning TIF

General Fund and Returning TIF - Preferred Scenario

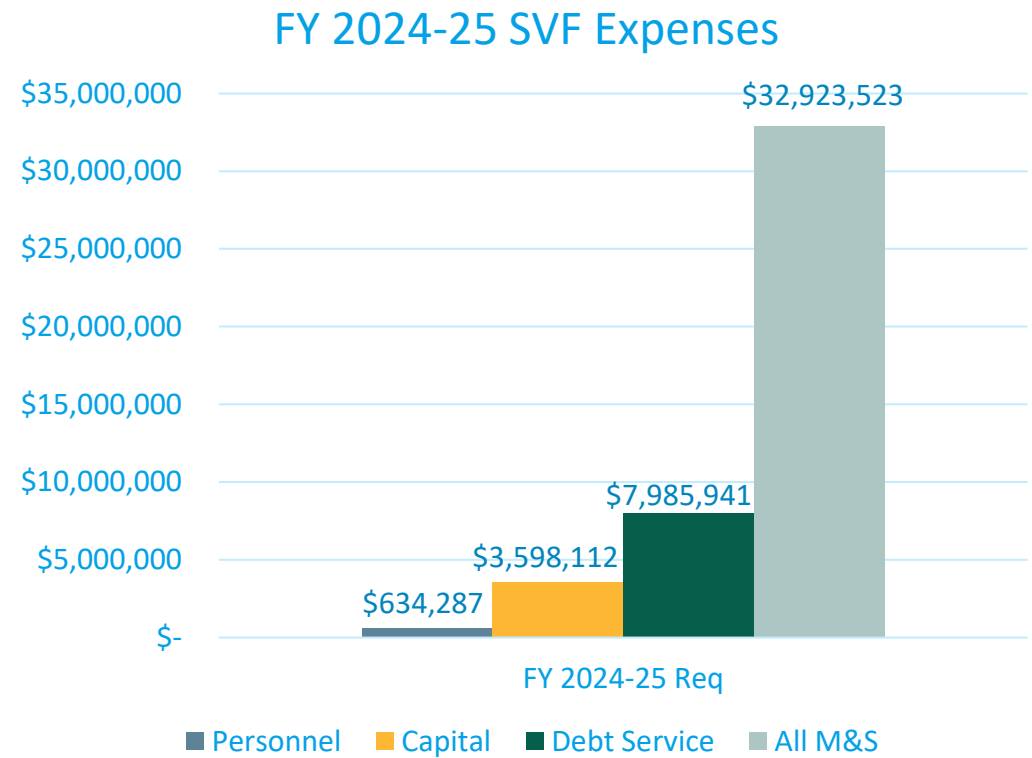
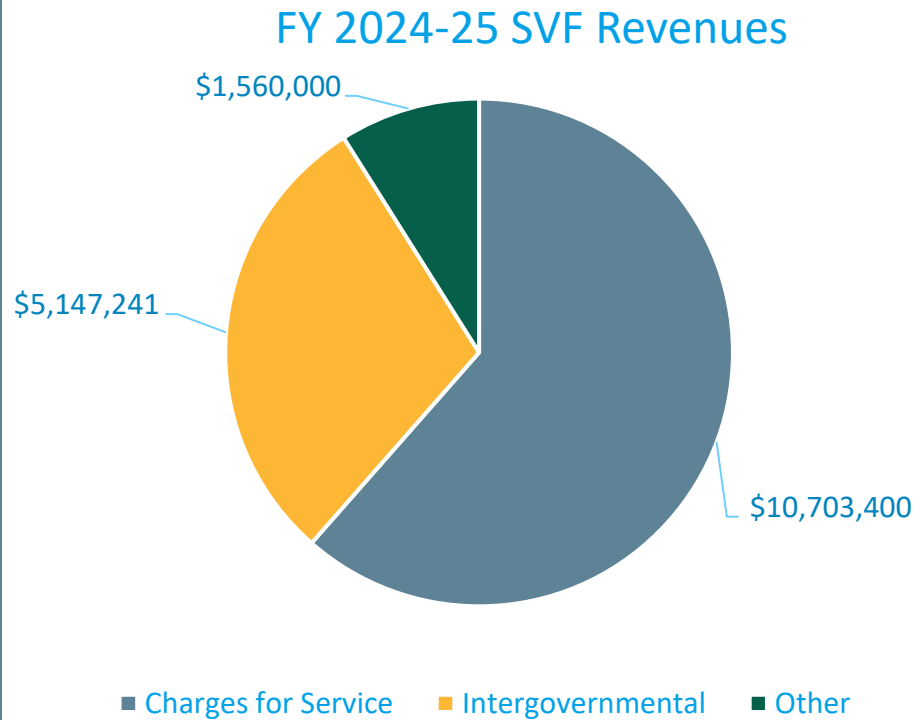


Spectator Venue & ESD Program Budgets Overview

4 FTE will join CED Service Area in FY 2024-25; budgeted in DCA Office.

ESD \$181K program personnel budget supports one FTE. Need additional \$30K to maintain program.

SVF sufficient for VMC renovations. RQ lease extension could put additional pressure on fund.





Questions and Discussion

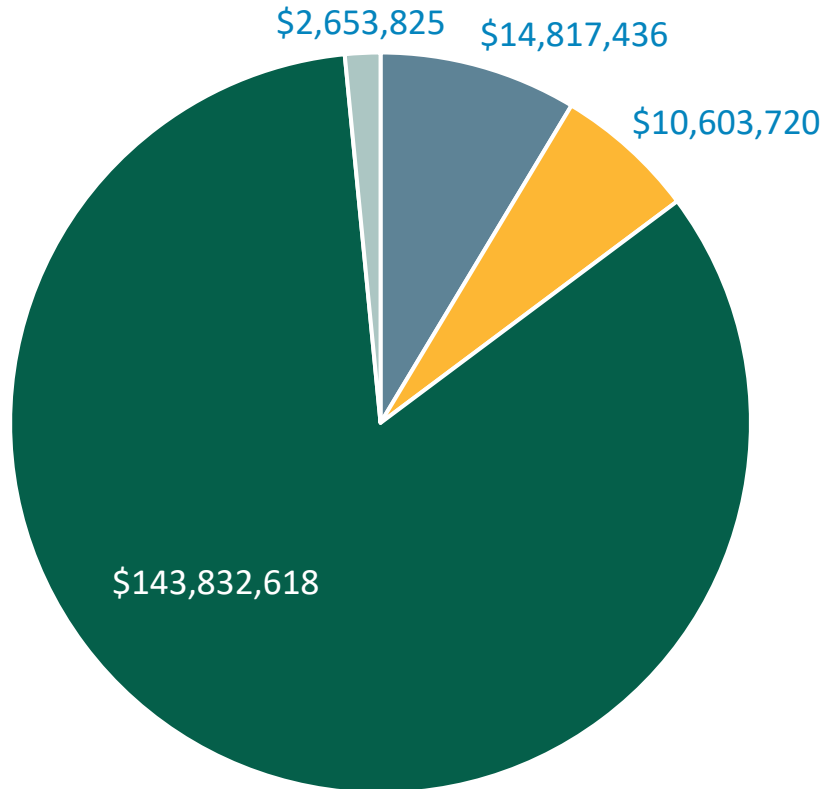


Portland, Oregon

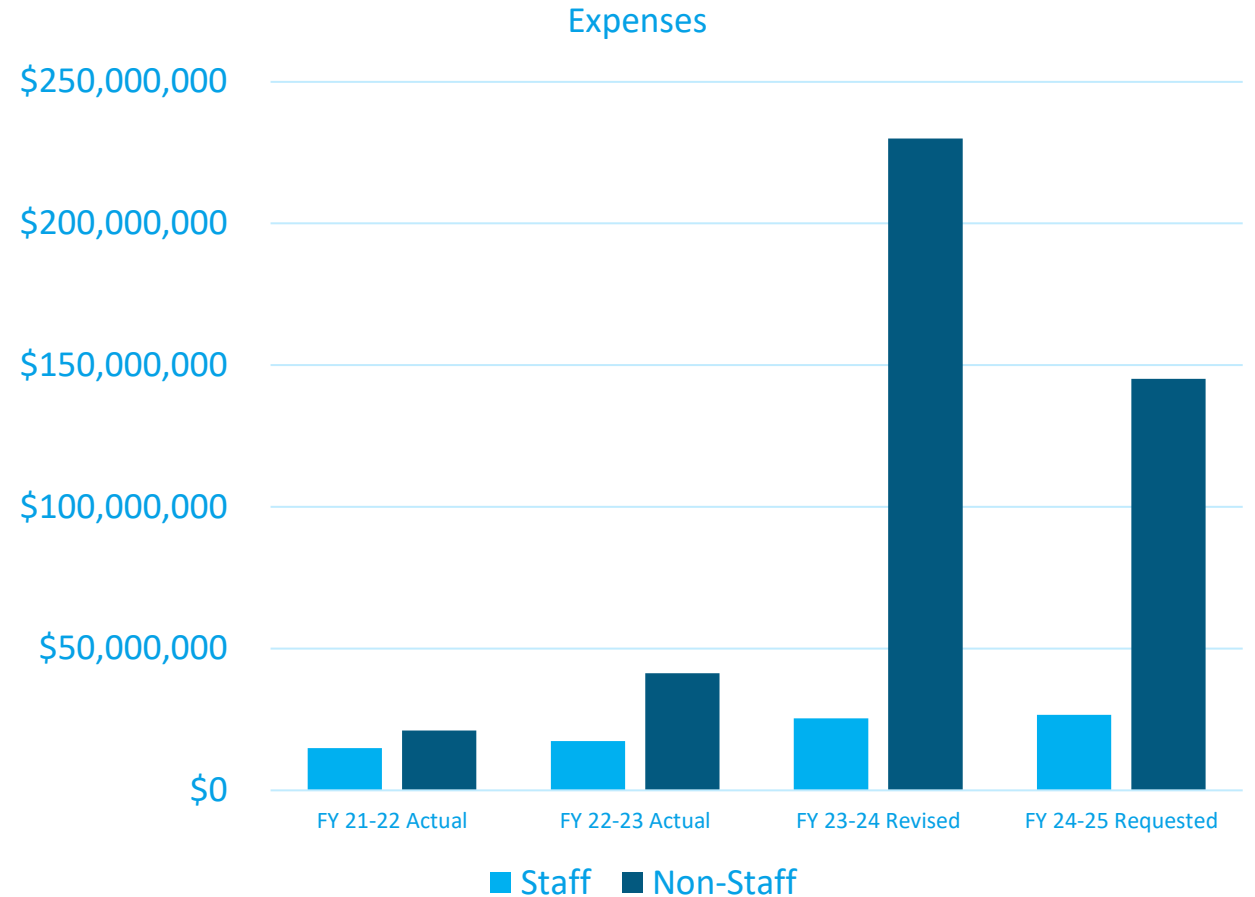
Planning and Sustainability

FY 2024-25 Requested Budget

Planning and Sustainability Revenues & Expenses FY 2024-25

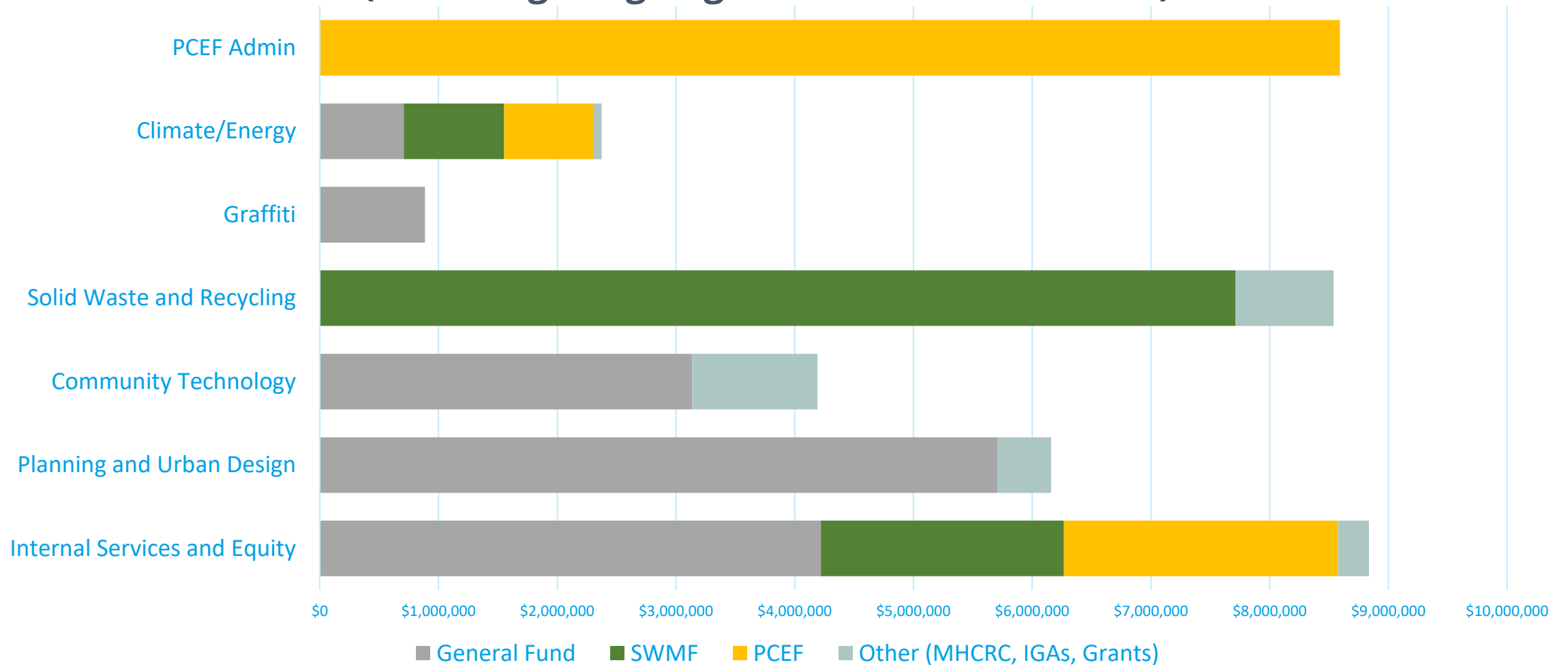


■ General Fund ■ SWMF ■ PCEF ■ Other (MHCRC, IGAs, Grants)



Program Operating Revenues

(Excluding Outgoing PCEF and MHCRC Funds)



FY 23/24 Highlights

Housing Needs Analysis and Regulatory Relief

Planning

Examined Portland's housing supply, housing affordability issues and the City's ability to meet projected housing demand until 2045. Groundwork for the upcoming Production Strategy.

Climate Investment Plan

PCEF

Five-year road map to climate action, directing investments of \$750 million. Ensuring our most impacted residents are prepared for a changing climate as we support the City's goal of net-zero carbon emissions by 2050.

Residential Waste Franchise Review

Waste

A review of the franchise system that provides and oversees residential solid waste collection services.

Right-of-Way Code

Community Tech.

Moving away from individual franchise agreements and utility licenses to a new, universal code that applies to all those that utilize the right-of-way to provide utility services within the city.

FY 24/25 Work



Housing Production Strategy

Promote needed housing and reflect, measure, and report on outcomes. Includes recommendations for zoning code and map changes, regulatory reforms, financial incentives, funding, land acquisition and preservation, and partnerships.



PCEF CIP Implementation

Advance council adopted investment strategy including RFP #3, and multiple strategic initiatives.



Economic Opportunities Analysis

Analyze and forecast growth in Portland's industrial and other business districts, then designate an adequate 20-year supply of developable land for businesses and jobs.



Sustainability & Climate Commission

Launch a new commission to provide direction to all service areas on implementation of the Climate Emergency Workplan.



Community Safety Data Portal

The Community Safety Data Portal is to be a website containing interactive dashboards and links to community safety datasets in the open data hub. The first phase of the project initially focused on fire, 911, and park safety workloads.



Graffiti Code Change & Enforcement

Update Graffiti Code to create new enforcement options to strengthen graffiti removal program

Bureau Growth – At Council Direction

1. Portland Clean Energy Fund Program
 - New Financial Systems
 - New Staff Capacity
2. Public Trash Program
3. Absorbed Graffiti Removal Program
4. Absorbed Community Technology Office
 - Franchise Utility (Right of Way)
 - Mt. Hood Cable Regulatory Commission

Budget Instructions and Cut Scenarios

- **Re-align Resources to address constraints**

Internal reorganization from General Fund to Bureau Overhead, to better reflect cost sharing with PCEF and Solid Waste Management Fund - Equity Team, GIS Services, Data Services and Communications.

Use of PCEF Funds to support Climate/Energy Program Staff.

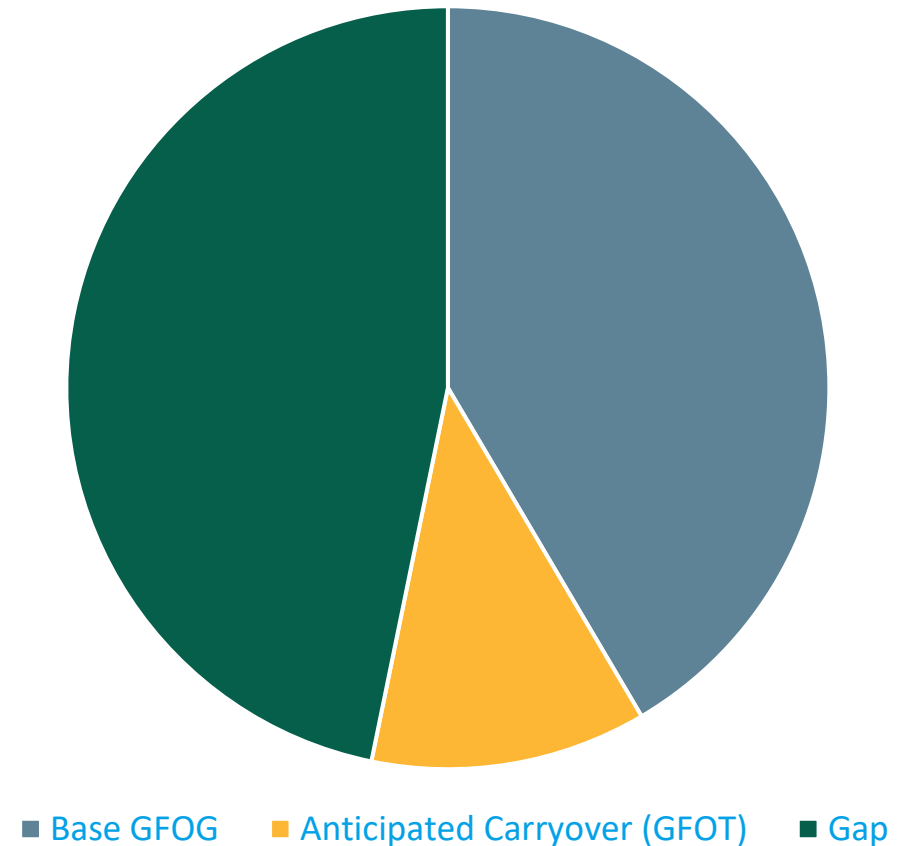
- **Solid Waste Rates**

Awaiting Metro Council action on fee increase scenario

Graffiti Abatement

- Projected FY 23-24 spending is \$1,625,000
- \$425k staff, \$1.2M contracts
- \$710k Ongoing GF Base Budget
- \$1.3M One Time Resources in FY 23-24
- ~\$800k gap in FY 24-25

Anticipated FY 24/25 Needs



PCEF Allocations - Next Steps



Climate Investment Plan



Additional Revenue

PCEF

CLIMATE INVESTMENT PLAN

Portland Clean Energy
Community Benefits Fund (PCEF)
Climate Investment Plan

August 2023



THE BUREAU OF **PLANNING
& SUSTAINABILITY**

CIP allocated \$750 million in climate investments over five years.

Includes allocations to 16 strategic programs, tree maintenance reserve fund, and to the Community Responsive Grants (CRG) program.

Strategic programs may be implemented through partnerships with nonprofit organizations, government entities, or businesses.

CRG program designed to exclusively invest in projects by community based nonprofit organizations.

CIP – Programs administered by City bureaus

Strategic Program	Bureau	Program Description	Total Budget Amount	Next Council action and Financial Mechanism
1	PHB	Clean energy in regulated multifamily affordable housing	\$60,000,000	N/A, annual IAA allocation approved in budget process
8	PP&R	Equitable Tree Canopy	\$40,000,000	N/A, annual IAA allocation approved in budget process Anticipate ordinances for contract RFPs at Council for pre & post solicitation approval
7	PBOT	Equitable clean transportation access	\$25,000,000	N/A, annual IAA allocation approved in budget process
15	Multiple	Federal climate and equity funding opportunities	\$20,000,000	Authorize receipt of federal grant funds, as necessary
12	PBOT	82 nd Avenue street tree expansion	\$5,000,000	N/A, annual IAA allocation approved in budget process
TCMR	PP&R	Tree Canopy Maintenance Reserve	\$5,000,000	N/A, annual IAA allocation approved in budget process Anticipate ordinances for contract RFPs at Council for pre & post solicitation approval
11	Prosper Portland	82 nd Avenue climate infrastructure and community resilience grant program	\$2,500,000	IGA for Prosper Portland administration

Other CIP Programs

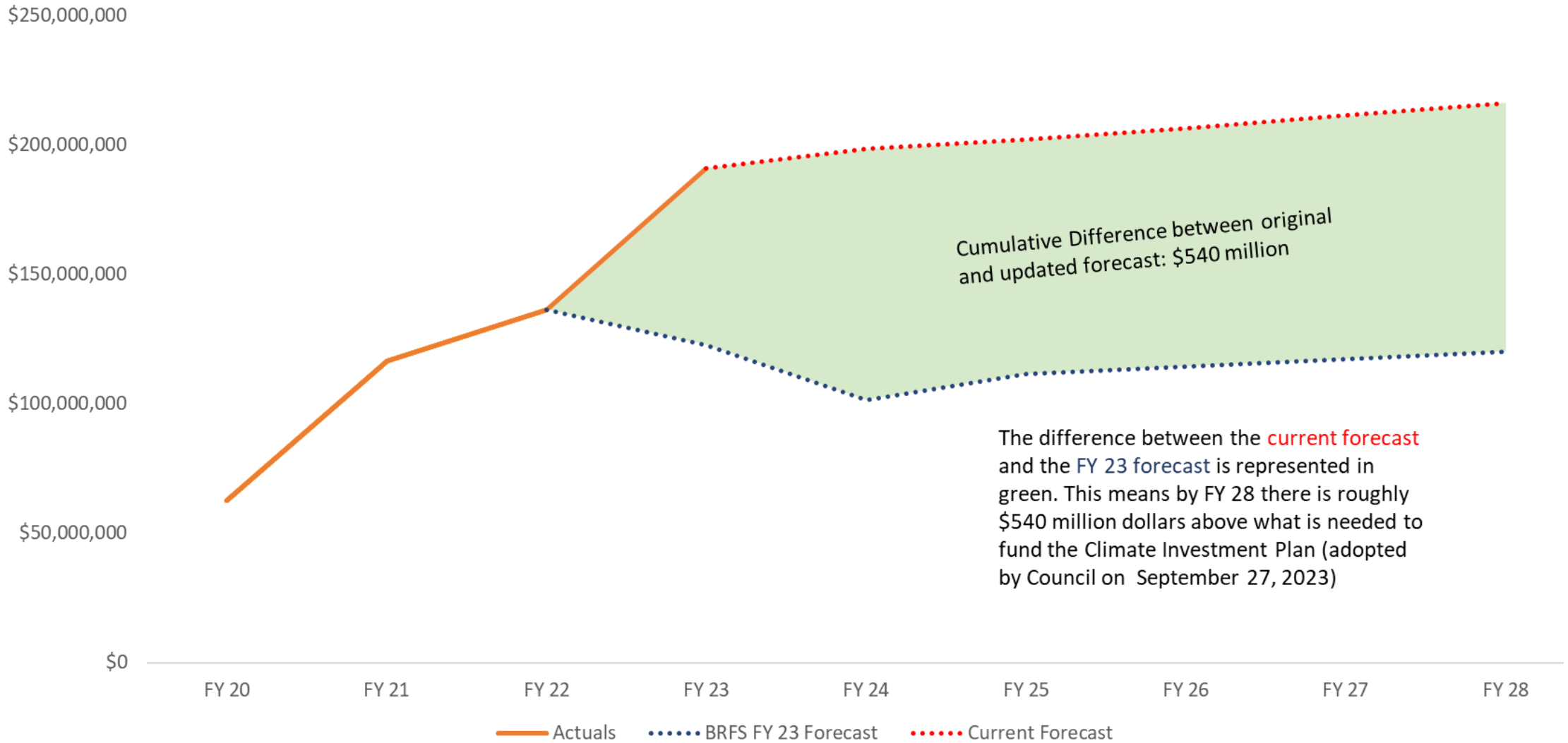
Strategic Program	Program Description	Total Budget Amount	Next Council action
3	Clean energy improvements in single-family homes	\$140,000,000	Early 2024: Ordinances for implementation RFP solicitation pre/post approval
2	Clean energy in unregulated multifamily affordable housing	\$50,000,000	TBD in 2024: Ordinance for pilot implementation contract Future: Ordinances for full RFP solicitation pre/post approval
16	Climate-friendly public schools	\$50,000,000	Throughout 2024: IGAs for implementation with each school district
14	Access to fair and flexible capital	\$45,000,000	Mid 2024: Ordinance for pilot implementation contract Mid 2024: IGA with Prosper Portland for implementation Future: Ordinances for full RFP solicitation pre/post approval
13	Targeted electric vehicle financing tools	\$35,000,000	TBD: Contract RFP solicitation
5	Building upgrades for community severe weather response	\$30,000,000	TBD: Grant award approvals and IGAs
4	Clean energy in small commercial buildings	\$25,000,000	TBD in 2024: Ordinance for pilot implementation contract and IGA with Prosper Portland for implementation alongside PIP program. Future: Ordinances for full RFP solicitation pre/post approval

Other CIP Programs - Continued

Strategic Program	Program Description	Total Budget Amount	Next Council action
6	Comprehensive e-bike access and support	\$20,000,000	Mid 2024: Ordinance for implementation RFP solicitation preapproval
10	Community-Based Organization (CBO) capacity building program	\$10,000,000	TBD: Grant award approval
9	Increasing access to urban regenerative agriculture opportunities – planning and land acquisition	\$6,000,000	TBD: Grant award approval

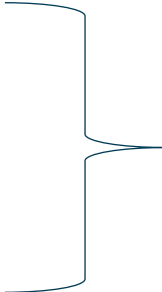
Updated Revenue Forecast

Clean Energy Surcharge Revenue and Interest



Methodology for proposed Bureau projects

- 1. Meaningful GHG reducing or sequestering (must have calculable GHG emissions impacts)**
- 2. Demonstrable community benefits**
- 3. General fund offsetting**
- 4. “Shovel ready” i.e., in existing Capital Plan, no new projects**
- 5. “Implementation Ready” i.e., existing program capacity/scope, no new programs**



“to invest in climate action projects that support environmental justice and social, economic, and environmental benefits for all Portlanders, including the development of a diverse and well-trained workforce and contractor pool to perform work that reduces or sequesters greenhouse gases.”

PCC 7.07.020 Policy and Purpose

Summary: Proposed first allocations included in bureau requested budgets FY 24/25

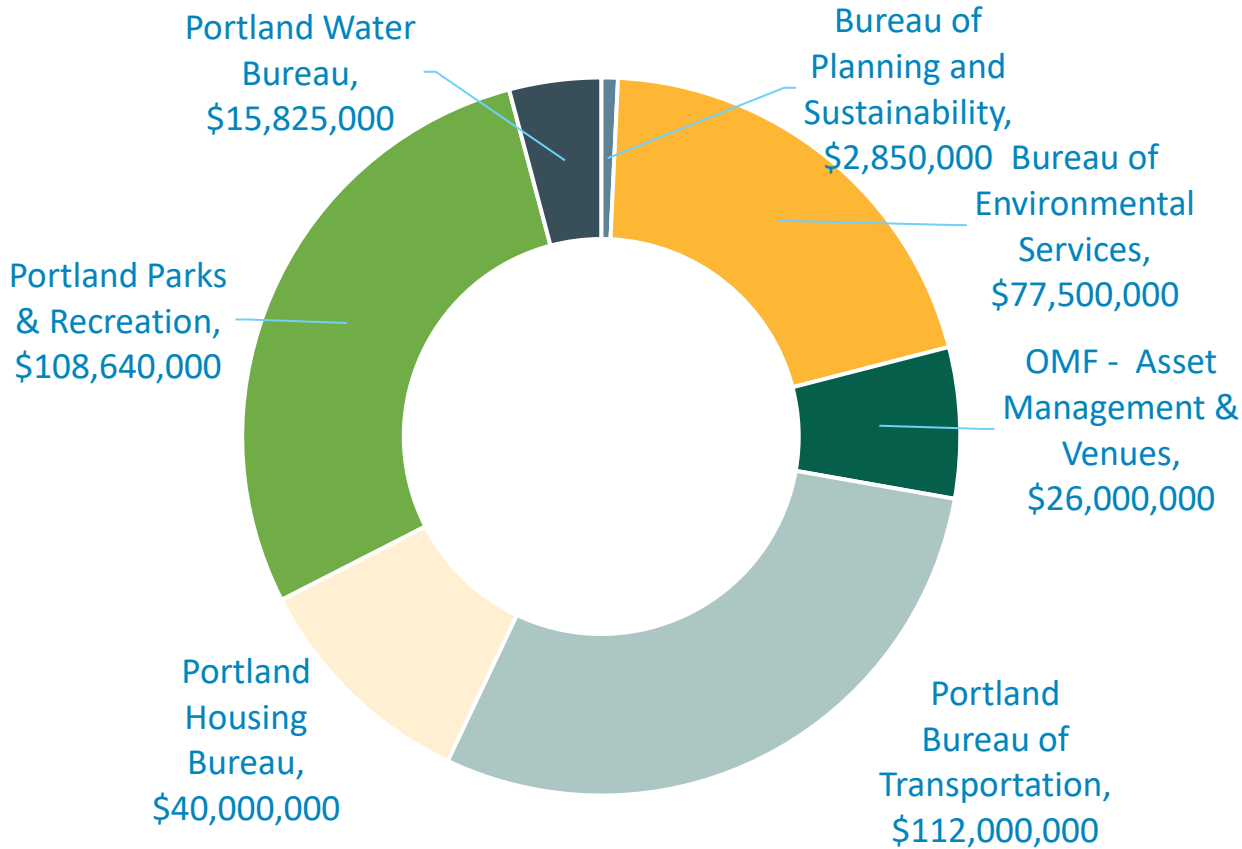
Allocation Item Number	Bureau	Allocation Description	Total Budget Amount
1	PWB	Low-income Home Water Leak Repair Program	\$2,500,000
2	PWB	Energy Efficiency : Energy Savings Performance Contract & EE at PWB Operations Facility	\$1,000,000
3	PWB	Renewable Energy : Micro hydro at Washington Park & Solar assessment and expansion	\$2,825,000
4	BHP	Upgrades to critical powerhouse electrical components	\$3,500,000
5	BHP	Federal Energy Regulatory Commission (FERC) Relicensing process costs	\$6,000,000
6	BHP	Reserve Fund * withdrawn from consideration	\$2,000,000
7	BES	Watershed, Natural Systems, Restoration and Biological Sciences	\$17,500,000
8	BES	Stormwater management, Blue-Green infrastructure, and Revegetation	\$53,000,000
9	BES	Private Property Trees	\$7,000,000
10	PHB	Clean energy investments into rehabilitation and preservation of low-income multifamily housing	\$40,000,000
11	OMF	Increasing City electric vehicles and EV charging infrastructure	\$25,000,000
12	OMF	Arlene Schnitzer Concert Hall: Roof Replacement and Cooling Tower Replacement Project	\$1,000,000

Summary: Proposed first allocations (continued)

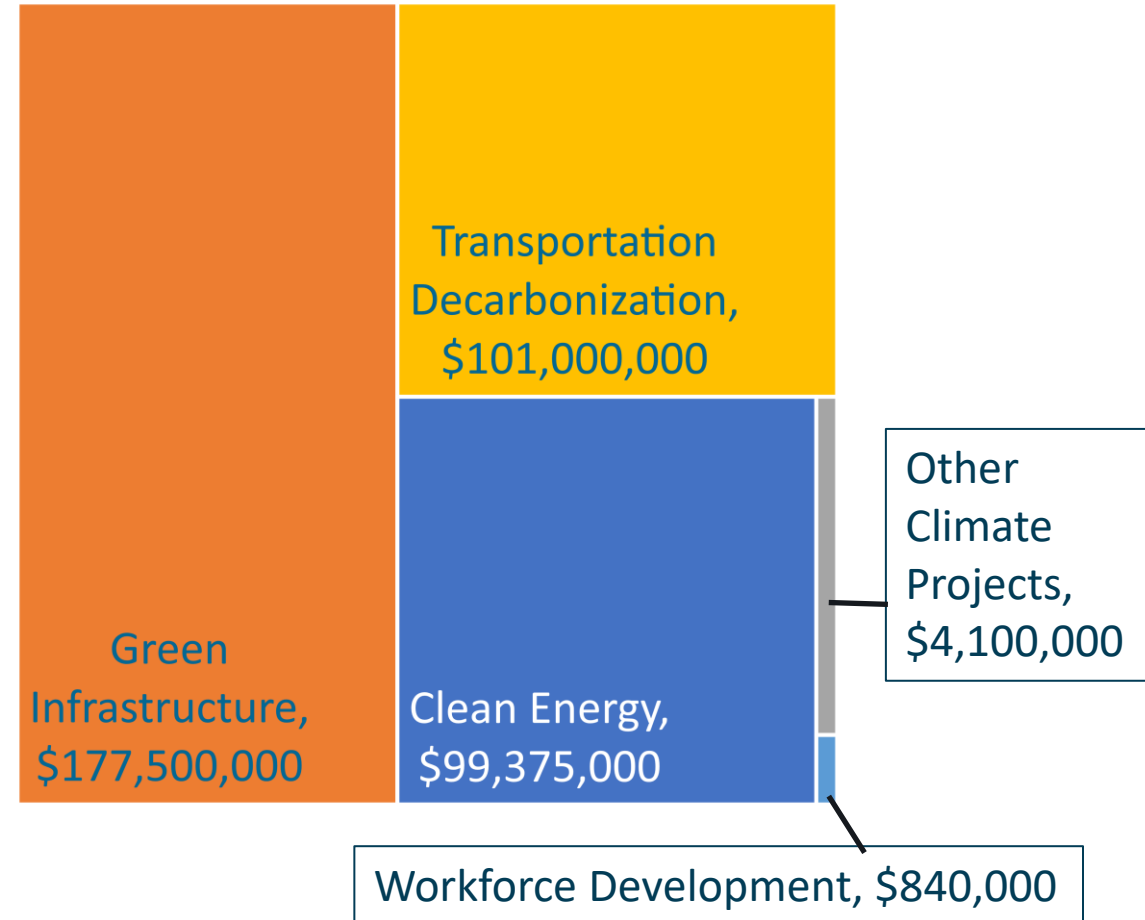
Allocation Item number	Bureau	Allocation Description	Total Budget Amount
13	PBOT	Streetcar Replacement	\$30,000,000
14	PBOT	Active Transportation Operations	\$10,000,000
15	PBOT	Small Active Transportation Capital Investment Program	\$20,000,000
16	PBOT	Community Programming, Education, and Encouragement	\$15,000,000
17	PBOT	LED Streetlights	\$37,000,000
18	PP&R	Mt. Scott Community Center Renovation for Resiliency	\$6,200,000
19	PP&R	Street Tree Protection and Care	\$100,000,000
20	PP&R	Arborist Trainee Program	\$840,000
21	PP&R	Transition from Gas Powered Backpack Leaf Blowers to Battery Powered	\$1,600,000
22	BPS	Community Based Renewable Energy	\$750,000
23	BPS	Decarbonize Transportation	\$1,000,000
24	BPS	Eliminating Carbon from Buildings	\$600,000
25	BPS	City Operations Decarbonization	\$500,000

Summary of Recommended 1st allocation (5-year totals)

Recommended allocation totals by bureau



Recommended allocation totals by PCEF funding area



PCEF Next Steps

Background

Sept. 2023

Council adopts CIP



Oct. 2023

Forecast updated, bureaus working on climate projects asked to request funding



Dec. 2023

Comm. Rubio announces two phases of allocations



Sept. 2023

Council adopts CIP



February

Bureaus submit PCEF Committee recommended projects into FY 24/25 Requested Budget



February

PCEF Committee will make recommendation based on process for second allocation



May

Council will discuss projects to be included in Mayor's Proposed Budget for FY 24/25



June

Council will consider PCEF recommendations to amend CIP



Questions and Discussion

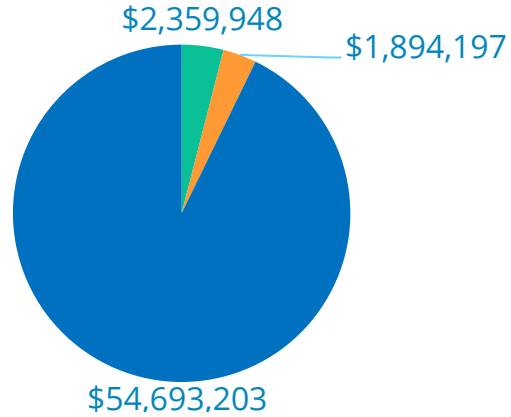


Portland, Oregon

Development Services

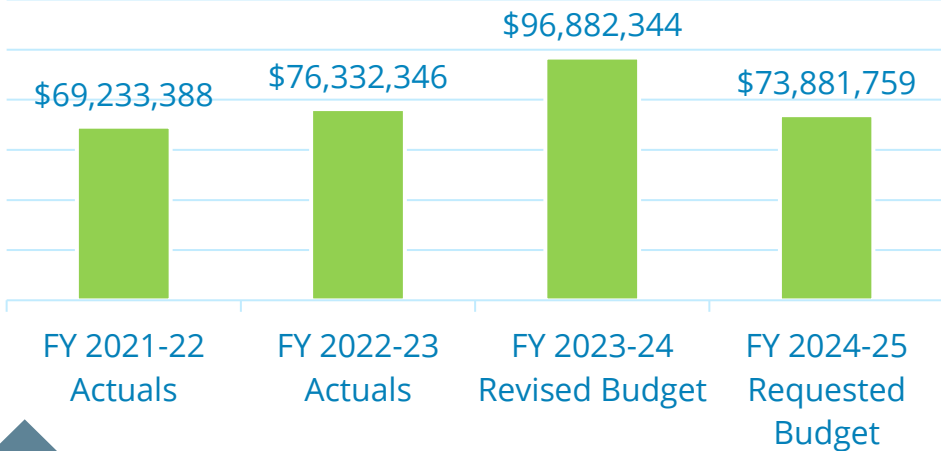
FY 2024-25 Requested Budget

Resources for FY 2024-25



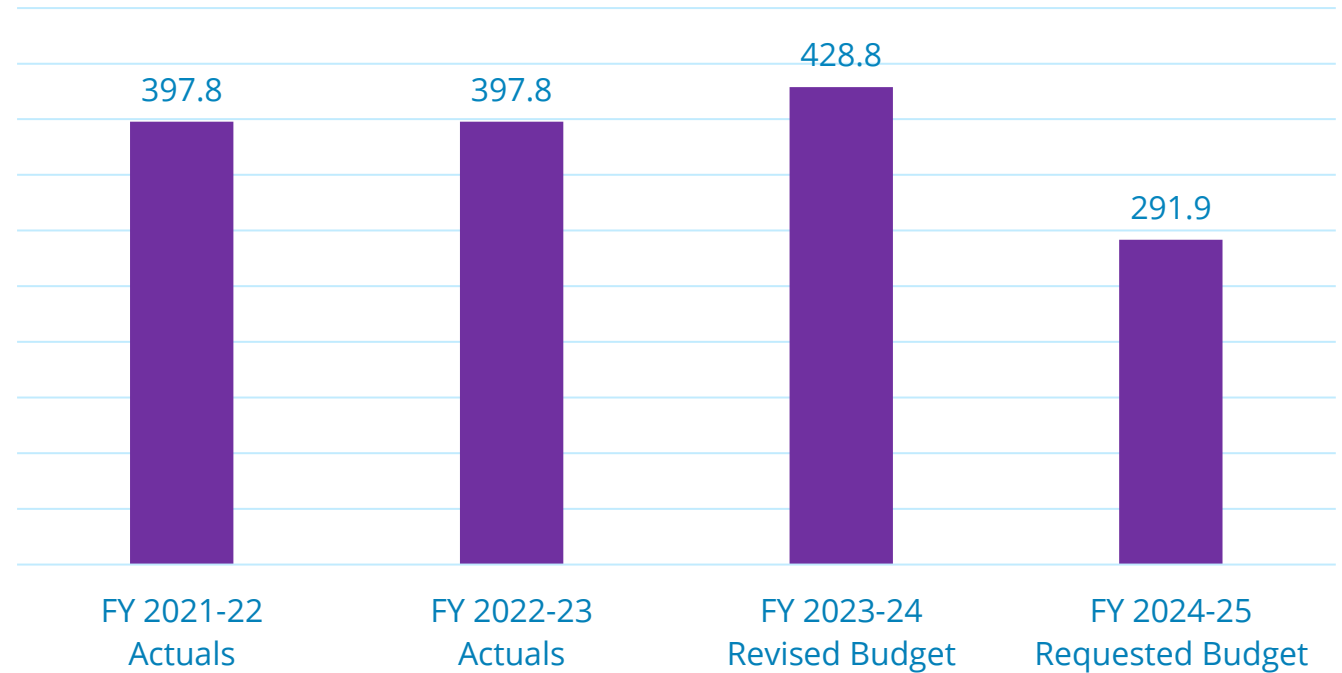
■ Interagency Rev ■ General Fund ■ Charges for Service

Preliminary FY 2024-25 Program Level Operating Budget



Development Services

Budgeted FTE By Fiscal Year



Challenges

Permit Activity

With high interest rates, declining market values in the downtown core, and low investor confidence, permitting activity is down.

Reserve Fund

The bureau is drawing down its reserves at a rate of \$2.8 million per month. Even after recent staff reductions, the reserve will be exhausted by the beginning of FY 2025-26.

Single Permitting Authority

With the creation of a single permitting authority, new functions will be integrated together. To be successful it needs to be fully funded.

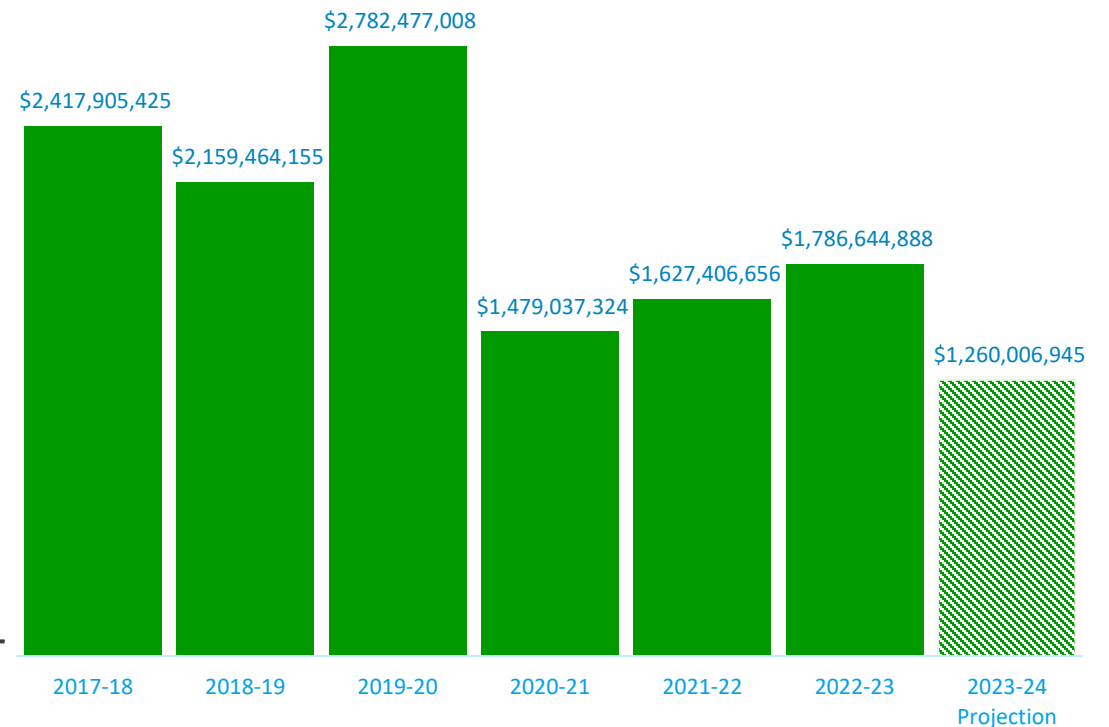
BDS Funding and Connection to the Economy

FY 2022-23

\$1.8 Billion
Valuation of
7,326
Permit Applications

- 97% of BDS funding is from fee revenue/charges for service
- Fluctuations in the economy have a pronounced impact on BDS revenue streams
- Macroeconomic trends, such as interest rate levels, impact demand for construction
- Construction activity is projected to stay low levels for 18-24 months
- Balance the need to maintain service levels with the maintenance of acceptable financial reserves
- Valuation of permit applications are down 37% year-over-year

Valuation of Building Permit Applications



Declining Revenues and Rising Expenditures

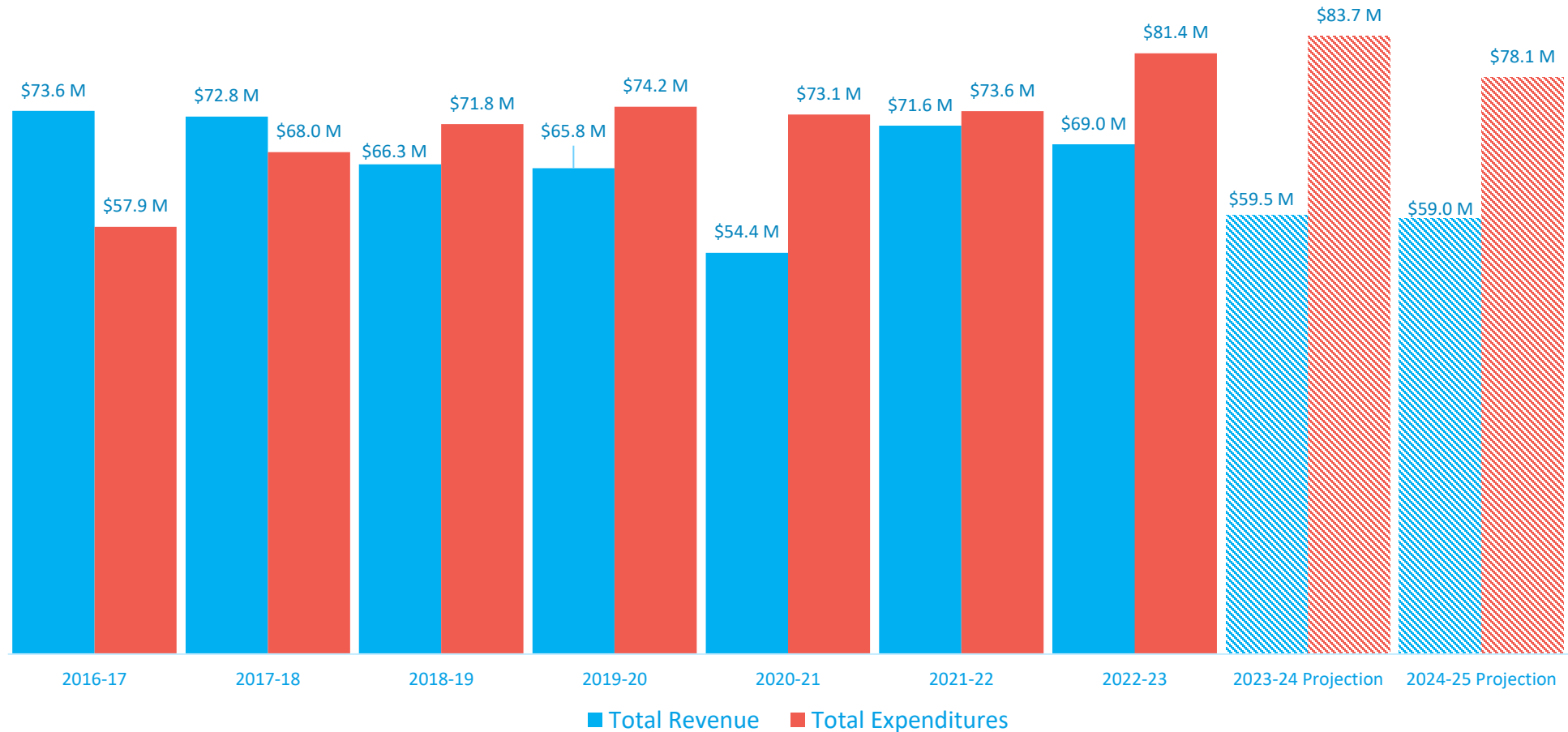
Resources

Revenue has declined in FY 2023-24 due to the impacts of interest rates and declining market values for large buildings in the downtown core

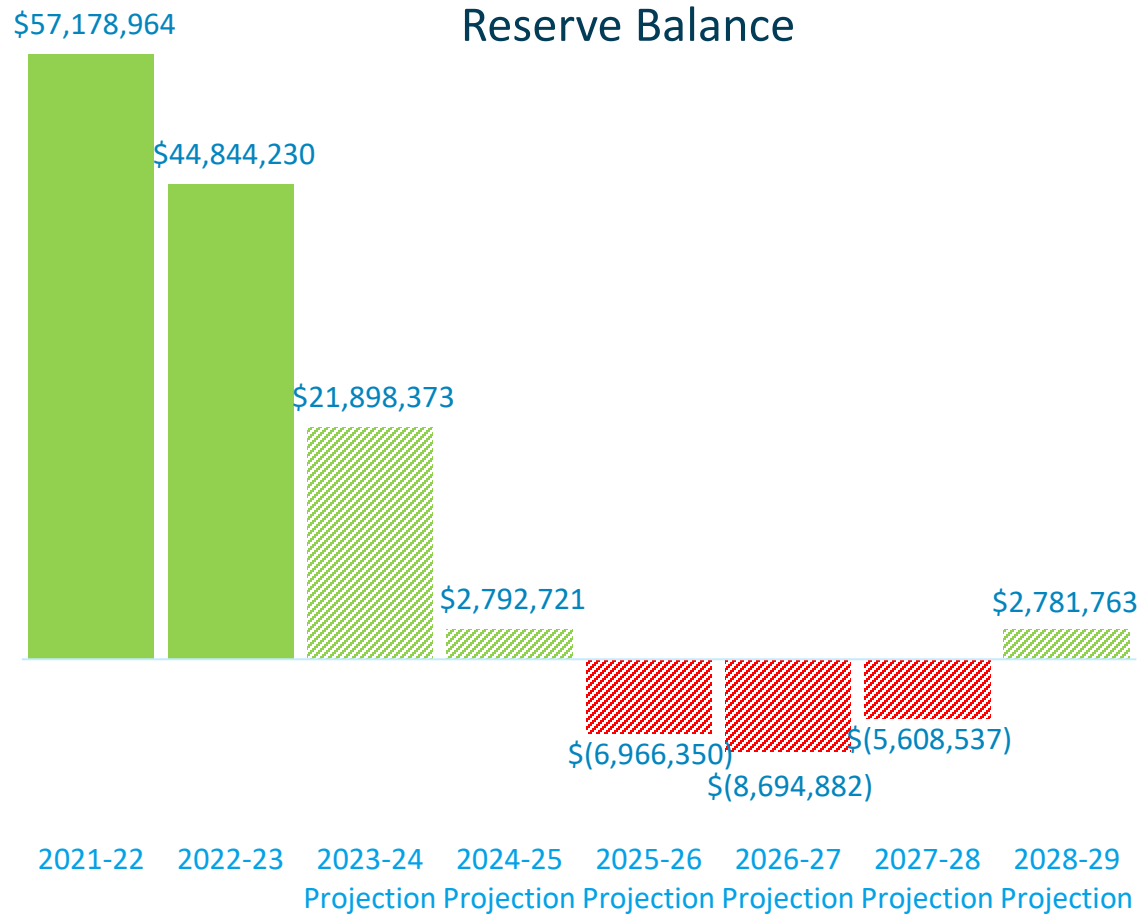
Expenses

Personnel costs continue to increase due to wage inflation, but BDS is projecting expenditure decreases due to reduction of 73 FTE

Revenues and Expenditures by Fiscal Year



Bureau Reserves



Consequences of depleting reserves

- Without intervention, BDS will deplete its reserves by beginning of FY 2025-26, if not sooner
- Unable to continue operations
- Layoffs that will result in irreversible negative impacts on the bureau and economic recovery in Portland area.
- Extreme difficulty hiring and retaining employees when and if construction activity recovers.

Considerations

Immediate

Additional layoffs

- Range: 34-65 FTE
 - In addition to 30 FTE natural attrition
- High impact to service levels
- Slows permitting timelines
- Must implement layoffs when 10 months draw remains in reserves

General Fund or other additional funding

- Delays and reduces severity of layoffs
- For every \$3.1 million in General Fund, delays layoffs by 1-2 months
- Helps maintain service levels

Fee changes

- Projections include 5% fee increases for most programs
- For every additional 5%:
 - Layoffs are delayed by 1-2 months
- Helps maintain service levels

Medium & long term

Change funding model

- Fees for services model ties funding to the unpredictable and volatile construction industry
- Countercyclical funding needed to provide stability and prevent need for layoffs in future business cycles

Requests for Support

General Fund

\$6.2 million in one-time General Fund to reduce the risk of future layoffs and provide resources to maintain service levels through the downturn.

Fee Changes

Council support for fee changes above 5%

Single Permitting Authority

Fund transition costs in response to Council-approved organizational chart.



Questions and Discussion



Portland, Oregon

Single Permitting Authority

Project Overview, Key Issues, and Questions

Single Permitting Authority - Overview



- Multiple audits over decades pointing to the need for a unified permitting service delivery



- Permit Improvement Task Force recommends specific areas for focus and change



- Permit Improvement Team begins work to implement Task Force recommendations



- **Resolution 37628 directs the Chief Administrative Officer to bring together permitting of development on private property and in the right-of-way into one single permitting authority.**

Single Permitting Authority – Roles



Portland City Council
Unanimously Passed Resolution



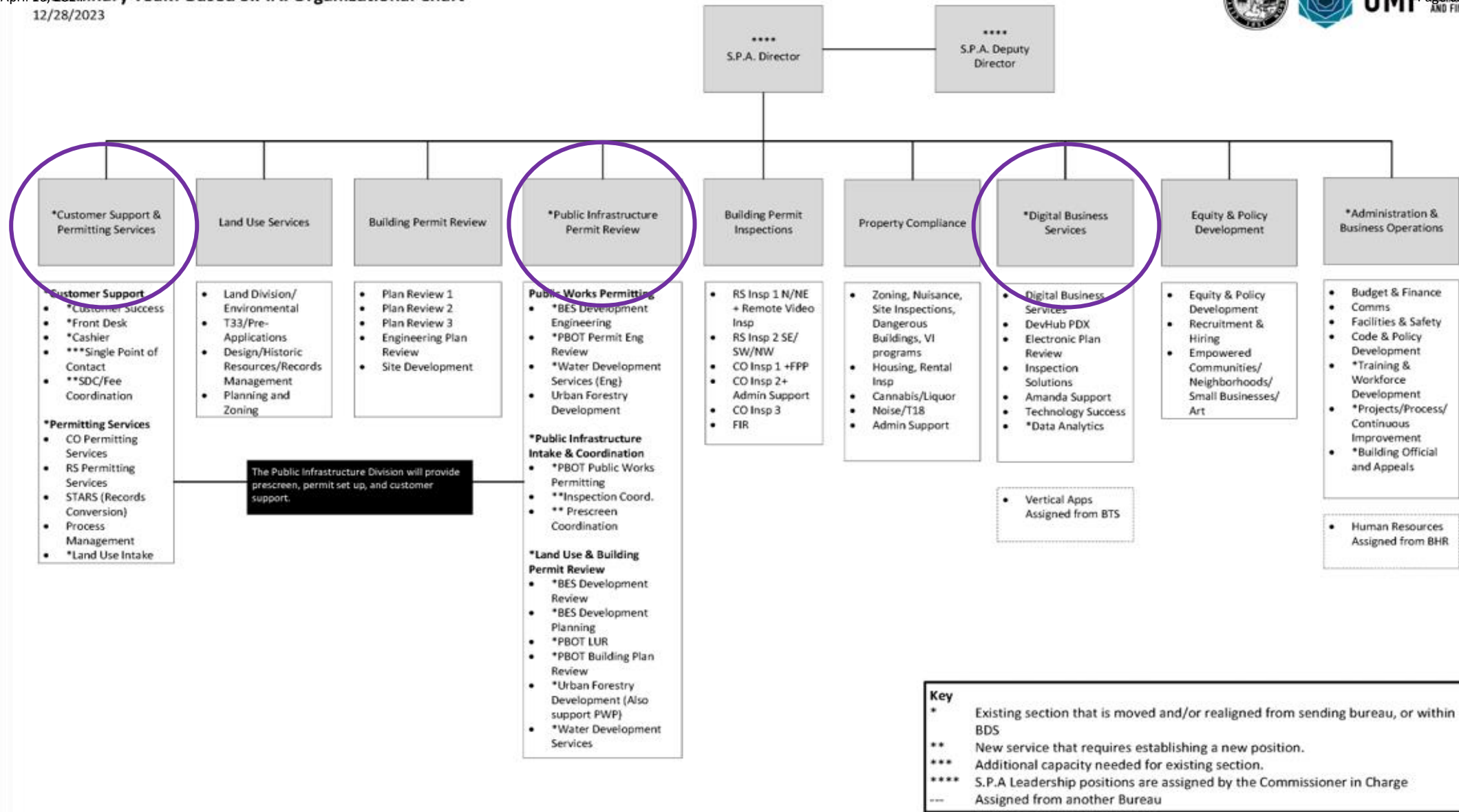
Chief Administrative Officer
Direct Unification/Consolidation



Permit Improvement Team
Project Managers

Single Permitting Authority – Resolution Goals

- Single point for decision making/conflict resolution
- Streamlining services to reduce customer wait times
- Improved coordination of permitting staff and workflow process
- Cohesive, effective permitting system essential in addressing Housing Crisis and Economic Recovery



Single Permitting Authority - Resolution Budget Directive

“WHEREAS, for service delivery to improve, all three issues must be addressed:

- 1) the City’s organizational structure needs to change to **establish a consolidated single permitting entity** which is the critical foundation for all future improvements;*
- 2) **an entity with clear authority, responsibility and accountability;***
- 3) **the resources to fund the staff and the technology projects needed to make continuous improvements to the system, services and culture; and[...]”***

- Portland City Council Resolution 37628
(Whereas Clause 15, bolding as in original)

Single Permitting Authority – Budget Challenges and Gaps

CUSTOMER SUPPORT

Ensure that customers start their permitting journey with the information and support they need for a successful and efficient permitting experience.

DIGITAL SERVICES

Support existing technology applications and apply a user-centric approach to increase project outcomes, accurately identify problems, and increase customer satisfaction.

REGULATORY COORDINATION AND CLEAN UP

Sustain a cohesive regulatory development and maintenance system with a feedback loop from those administering and enforcing regulations back to those developing policy and codes.

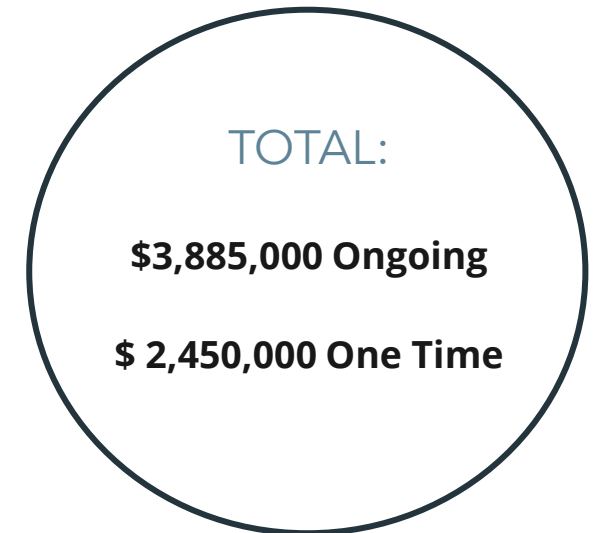
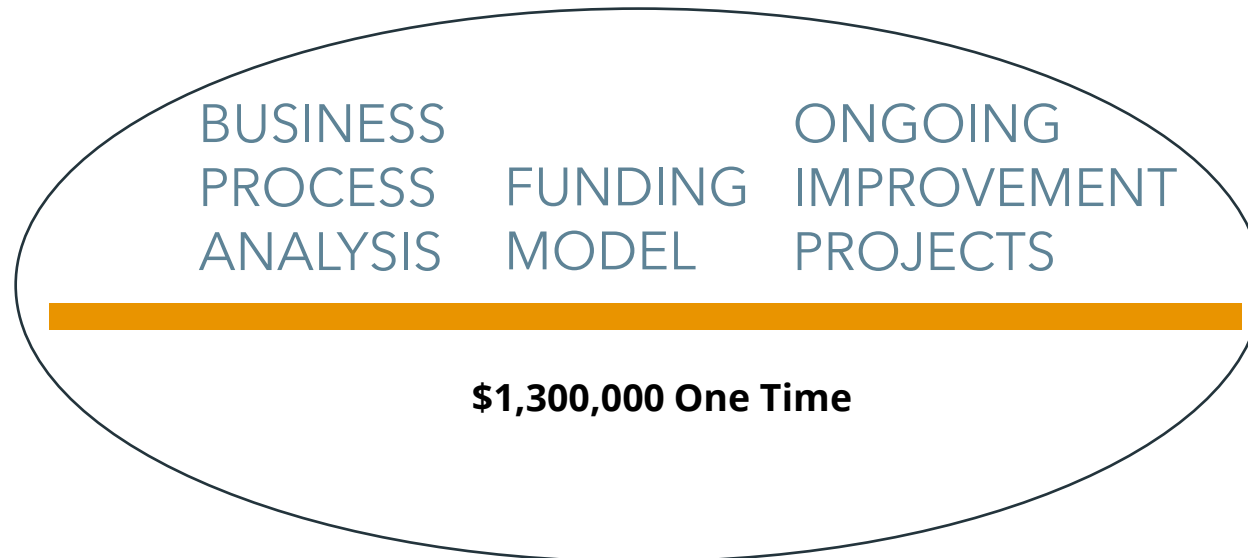
BUSINESS PROCESS ANALYSIS

Complete an end-to-end system-wide evaluation of workflow and business operations to thoroughly understand the entire process with all involved teams to improve service timeliness, quality and predictability.

FUNDING MODEL

Identify wholistic and diverse revenue that sustains consistent staffing and makes retaining and recruiting a skilled technical workforce attainable.

Single Permitting Authority - Budget Request Estimates



Budget Requests

1. 5.0 FTE Development Services Project Coordinator
2. 1.0 FTE SDC and Fee Coordinator
3. 1.0 FTE Product manager
4. Google Chatbot AI Product Implementation
5. 7,000 BTS billable hours Website user experience and interface design and Alignment
6. Training

Outcomes

1. Customers assigned a Coordinator to support the applicant through the process.
2. Permit applicants and staff have a central hub for SDC/fee information.
3. Customers can quickly find what permits are required and the information for a successful application submittal.
4. Web interfaces are intuitive and aesthetically pleasing.
5. Support for customers on our website to get answers in real-time.
6. Staff will have ability to design customer solutions and to improvements.

Customer Support

Budget Requests

2.0 FTE Product Managers

3.0 FTE DevHub, AMANDA & Integrations Developers

2.0 FTE ProjectDox/AMANDA tech support

3.0 FTE Helpdesk tech support

BTS Vertical Apps

BTS Vertical Apps

Embedded in SPA Teams

SPA Digital Services

Digital Services

Outcomes

1. Invest in in-house expertise and replace expensive, inflexible vendor contracts.
2. Shift technical support methodology to use Digital Services and agile best practices, aligning with similar BTS efforts. Empower teams to deliver project outcomes.
3. Re-engineer the permitting database, which was rushed into production because of the pandemic.
4. Better customer experience and employee satisfaction. Meet digital experience expectations.

Budget Request

1.0 FTE Code and Policy Manager

Outcomes

1. Launch a code clean up initiative to resolve conflicts.
2. Lead an existing cross-bureau team of policy staff to ensure rules do not conflict with existing codes and polices.
3. Develop a code and policy strategic plan for the built environment.

Regulatory
Coordination
and
Clean Up

Business Process Analysis

Funding Model

Ongoing Improvement Projects

Budget Requests

4.0 FTE Permit Improvement Team

Consultant; training, facilitation and change management

Outcomes

1. Implement Single Permitting Authority: project management, change management, culture shift and teambuilding.
2. Analysis of workflow, operations and end-to-end process. Identify efficiencies, improvements and structural changes.
3. Research, stakeholder engagement and recommendation for revision of funding model to support SPA operations.
4. Continue rollout of projects in motion, such as the website realignment, data governance, performance metrics, team-based process improvements.

Single Permitting Authority – Risks



PROJECT FAILURE

Resolution outcome not realized, lack of support to stand up a new single permitting authority



TECHNOLOGY MISALIGNMENT

Technology continues to be disjointed across teams with no strategic plan, prioritization and limited capacity to support critical projects.



FRAGMENTED PERMITTING

Efficiencies are not attained due to lack of understanding about business operations and workflow.



ERRATIC FUNDING

Funding remains inconsistent, unpredictable and skilled staff are not retained, customer needs are not met.



Questions and Discussion



Key takeaways:

BPS

- PCEF allocations process for bureaus
- Graffiti funding gap

PHB

- Spend down of housing bonds by FY 26-27
- Returning TIF and PCEF resources are a bridge

BDS

- Permit Activity- reserves run dry beginning in FY 25-26 or sooner
- Need fee increase, General Fund support, or anticipated permit timeline impacts

Prosper

- Returning TIF resources are key bridge
- Cannabis Fund Instability current, ongoing impacts



Questions and Discussion