FINANCIAL SUSTAINABILITY COMMITTEE

FUNDING SOURCES WORKSHOP: BRIEFING BOOK

OCTOBER 14, 2015

HR&A Analyze. Advise. Act.
PDC | PORTLAND DEVELOPMENT COMMISSION

DRAFT

Based on peer organizations, HR&A identified a range of potential funding sources for operational, program, and capital costs.

Philanthropy & Impact Investments

Philanthropy

- Local and nat'l foundations offer opportunities for capital; some also provide tech. assistance
- Dependent on interests and mission of philanthropic org.
- Requires staff for sustained philanthropic engagement

Impact Investments

- Type of socially resp. inv, seeks social, environmental, and financial return
- Used by peers as suppl. source, often through a partner or subsidiary
- Some sources are untested and may require significant time and cost for startup

Intergovernmental

Federal & State

- Generally restricted in use; dependent on current federal and state objectives and priorities
- Low predictability; PDC must compete with other cities for most federal funds

Local

General Funds

- Major source for many peers
- Subject to political cycles and changing priorities

TIF / URA Prog. Income

- Subject to local TIF statute restrictions, political support

Special Assessments

- Funds are use-specific and requires approval by district constituents

Dedicated Taxes/Fees

- Reliable source of funds
- Requires one-time political support; not subject to annual appropriations

Earned Income

Real Estate / Parking

- Major source for many peers
- Reliable and flexible
- Requires capitalization, generally by City

Lending

- Predictable income through transaction fees and returns
- Requires capitalization by public, private, or philanthropic funds

Business Investment

- Usually requires partner org.
- Impact depends on size of portfolio; generally limited
- Requires capitalization by public, private, or philanthropic funds

Fee for Service

- Generally for cost recovery

Each major funding source include a range of potential tools.

Philanthropy & Impact Investments

Philanthropy
- Grants
- Program Related Inv.
- Mission Related Inv.
- Venture Philanthropy

Impact Investments
- Public/Intergovernmental
- Private (e.g. pension funds, banks, wealth mgr.)
- Philanthropy (e.g. individuals, foundations)

Intergovernmental

Federal & State
- Federal Tax Credits (e.g. New Markets, Historic)
- Treasury (e.g. CDFI Fund, SSBCI)
- HUD (e.g. CDBG, 108)
- SBA (e.g. 7A, 504)
- EDA (e.g. RLF)
- CIS (e.g. EB-5)
- State Tax Credits
- State Grants and Loans

Local

General Funds

TIF / URA Prog. Income

Special Assessments
- Utility Districts
- Business Improvmt. Dist.
- Local Improvement Dist.
- Property Assessed Clean Energy
- Cap and Trade

Dedicated Taxes/Fees
- Business License Tax
- Utility License Fees
- Transient Lodging Tax
- Car Rental Tax
- Payroll Tax
- Income Tax
- System Dev. Charges

Earned Income

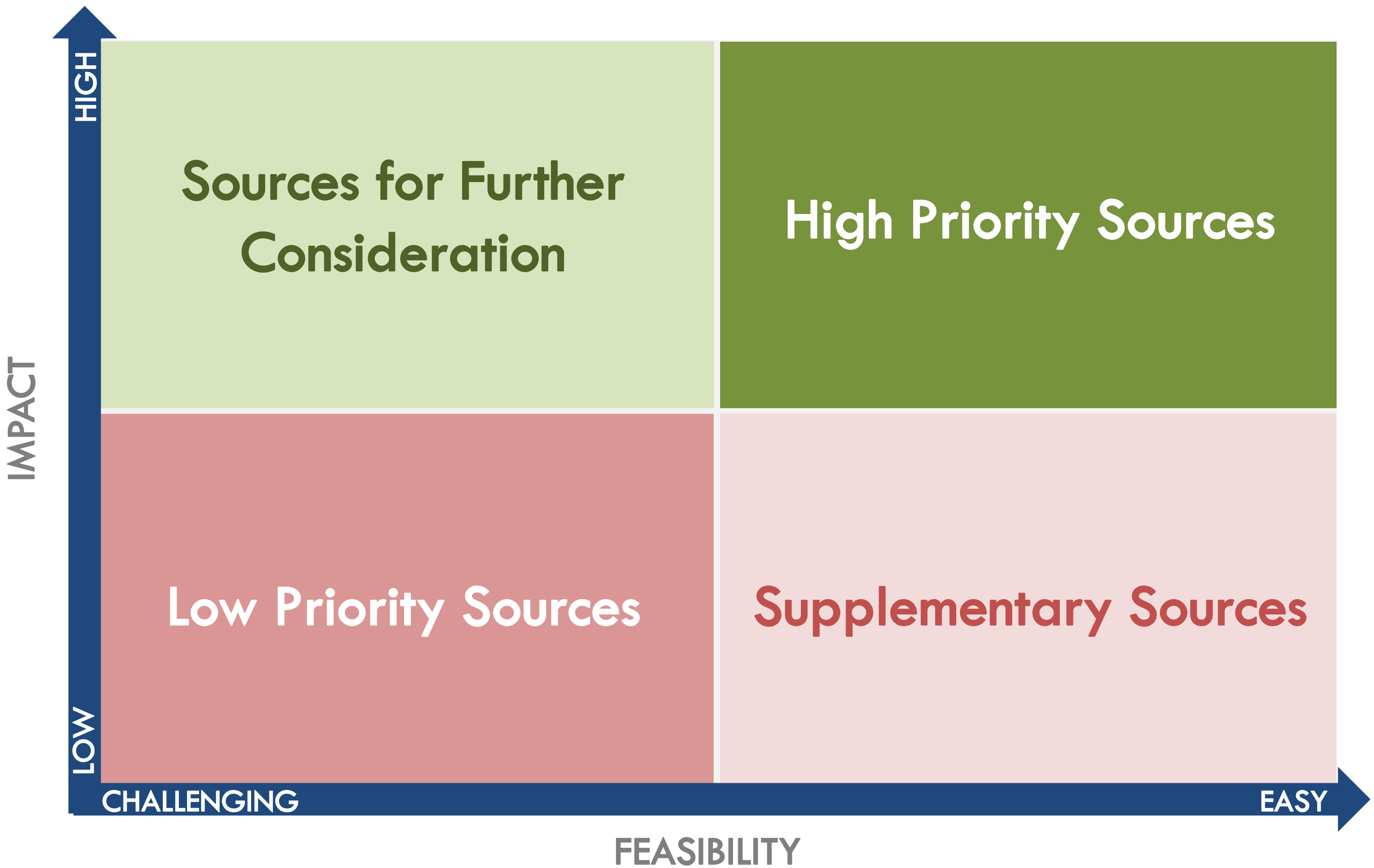
Real Estate / Parking
- Development
- Leasing and Disposition
- Asset Management

Lending
- Real Estate Lending
- Business Lending

Business Investment
- Inv. Funds & Trusts

Fee for Service
- Program Admin. (e.g. PACE, EB-5, E-Zone)
- Cost Recovery (e.g. GIS)
- Business Dev. Fees
- PPP Development Transaction Fees

At the upcoming FSC meeting, PDC and HR&A will conduct breakouts and group discussion in order to identify 5-7 priority tools for evaluation.



In order to inform this upcoming discussion, HR&A assessed the impact and feasibility of 11 major funding sources.

WHICH FUNDING SOURCES ARE MOST **IMPACTFUL?**

- ❑ **Financial Impact:** Order-of-magnitude impact on PDC budget
- ❑ **Flexibility**: Ability to use/interchange funds for capital, program, or operational costs
- ❑ **Predictability:** Stability or growth potential of funding source; level of PDC control

WHICH FUNDING SOURCES ARE MOST **FEASIBLE?**

- ❑ **Political Viability:** Political support, approval process, competing constituents
- ❑ **Cost to Obtain:** Startup costs for new or untested funding sources
- ❑ **Time to Obtain:** Time required for approve or obtain new or untested funding sources

Philanthropy
Precedents

Philanthropy is largely accessed through partner organizations and may provide support for capital projects and/or programs.

- Projects may draw from both **local and national foundations**, including general foundations, family foundations, community foundations (e.g. Oregon Community Foundation), corporate foundations, and special purpose foundations.
- Traditional foundations are reactive and provide funding to programs initiated by others, **larger foundations are more proactive** and may provide both funding and technical assistance (e.g. Rockefeller + 100 Resilient Cities, Ford + Local Initiatives Support Corporation).
- Philanthropic funds may be in the form of:
  - **Grants**: Grant with no repayment required, usually disbursed for a specific project and solicited through a proposal process
  - **Program-Related Investments (PRI):** Below-market rate debt or equity investment for charity, commonly used as supplement with grants
  - **Mission-Related Investments (MRI)**: Market-rate debt or equity investment that aims to generate financial, social, and env. return
  - **Venture Philanthropy (VP)**: Combines financial investment (grants, PRI, MRI) with mentorship, capacity building, technical support, etc.

NEW YORK CITY ECONOMIC DEVELOPMENT CORP.
Cornell Tech

- Cornell-Technion campus for applied science and engineering.
- Part of NYCEDC-led Applied Sciences initiative to foster growth of science, technology, and engineering cluster in New York City.
- City provided land and $100 million for infrastructure.
- NYCEDC provided entitlement and transactional support.
- Leveraged Cornell's network and fundraising capacity to attract $685M+ from Atlantic Philanthropies, Bloomberg Philanthropies, and others.
- Partnership enabled the City and NYCEDC to realize educational and economic development goals with modest public investment.

Philanthropy
Key Findings and Considerations

Impact and feasibility is highly dependent on alignment between public agency and foundation mission, relationships with donors, and competition for funds.

IMPACT	
Financial Impact	Depends on PDC and/or partners' fundraising capacity, relationships, and alignment of mission. Funds may not reside within PDC budget but can support individual capital projects or programs.
Flexibility	Philanthropic funds tend to be targeted at specific projects or programs, may not align with PDC mission. Donors generally favor high-visibility projects and are unlikely to fund PDC's internal operations.
Predictability	Generally one-time or limited duration commitment. Ongoing commitments are rare and require strong relationships and alignment of mission.
FEASIBILITY	
Political Viability	Highly viable, but PDC and partners may need to strengthen coordination to avoid competition for funds. Limited capacity of local foundations suggests need to access national philanthropies.
Cost to Obtain	Likely limited cost to PDC if philanthropic funds are accessed via non-profit partners. Staff and resources to coordinate partners for funding applications, outreach, and advocacy. Non-profit partners may require technical assistance from PDC and/or national foundation to bolster capacity. Donors may request seed funds or matching funds from PDC, public agencies, and/or other donors.
Time to Obtain	Requires ongoing relationship management by PDC and/or non-profit partners. Requires ongoing measurement of outputs and outcomes to demonstrate project impact to donors.

Impact Investments
Precedents

Impact investments are typically managed through a subsidiary and refer to investments that generate social and environmental impact in addition to a financial return.

- Impact investing builds on the principles of socially responsible investing, which seeks to avoid investments with negative social impacts.
- Impact investment funds may be capitalized by public funds or a combination of public, private, and philanthropic funds:
  - **Public** investment often serves as "seed" funding to provide proof of viability for private or philanthropic investors
  - **Private** investors, such as banks, pension funds, and wealth managers, are driven by shareholder interest in double- or triple-bottom line investing or regulatory requirements (e.g. Community Reinvestment Act (CRA))
  - **Philanthropists or foundations** seeking to grow or maintain their capital may deploy funds through PRI, MRI, or VP as opposed to grants
- Funds may be invested in debt, equity, real assets, loan guarantees, microloans, social impact bonds, etc.
- According to a 2015 J.P. Morgan/GIIN Survey, a **majority of impact investors pursue market-rate returns** (55%), a minority invest for below-market-rate returns (27%) or only seek to preserve capital (18%).
- In addition to financial return, **investors require clear metrics for measuring impact** in social and environmental terms.
- Peer organizations often access funds via **partners** (e.g. Craft3, EcoTrust), while some manage funds through a **fully or partially-owned subsidiary**, some subsidiaries are certified by the U.S. Treasury as Community Development Financial Institutions (CDFI), Community Development Entities (CDE), or Regional Center, which provide eligibility for federal programs (e.g. CRA, CDFI Fund, NMTC, EB-5).

PHILADELPHIA INDUSTRIAL DEVELOPMENT CORP.
PIDC Community Capital and PIDC Regional Center

- PIDC established PIDC Community Capital, a certified CDFI and CDE, in order to compete for federal New Markets Tax Credits (NMTC) and attract investment from financial institutions seeking to comply with Community Reinvestment Act requirements.
- PIDC also partnered with CanAm Enterprises to establish a Regional Center for the federal EB-5 immigrant investor program and has successfully raised $2 billion in capital for more than 46 infrastructure and development projects in Philadelphia.

Impact Investments
Key Findings and Considerations

Impact and feasibility depends on source of funds and investor objectives; may be managed by a subsidiary or an independent fund manager who is accountable to both PDC and other investors.

IMPACT	
Financial Impact	Relatively small but growing funding source compared to philanthropic, intergovernmental, and private funds. Impact depends on sources pursued (e.g. banks, foundations, EB-5), not yet a core source for most peers. Most funds are managed directly by foundations, non-profits, or a professional fund manager.
Flexibility	Projects driven primarily by financial, social, and environmental objectives of investors. Financial institutions are driven by CRA compliance and may only seek out CRA qualifying investments.
Predictability	Emerging asset class, some tools are relatively new and untested (e.g. social impact bonds, social success notes).
FEASIBILITY	
Political Viability	Most funds are managed directly by foundations, non-profits, or a professional fund manager. Peers focus on managing funds capitalized by local or intergovernmental sources (e.g. general funds, NMTC).
Cost to Obtain	Varies by specific tool, some (e.g. tax credits) require significant transaction costs (e.g. legal, accounting, asset management fees, placement fees, etc.), others (e.g. social impact bonds) are structured so that public sector pays only if an initiative or project is successful.
Time to Obtain	Depends on tool and existing institutional knowledge, PDC can likely leverage capacity and expertise of local partners and non-profits (e.g. Enterprise Community Partners, Craft3, Albina Community Bank, EcoTrust, Energy Trust of Oregon, etc.).

Federal & State Funds
Precedents

Intergovernmental funds support a diverse range of activities, including housing, economic development, and sustainability, but are dependent on current Federal and State priorities.

- Nearly all peers rely on some Federal and State funding, although to varying degrees depending on specific agency roles.
- Sources include block grants (more flexible), categorical grants (more restrictive), formula grants, loans, and loan guarantees.
- Peers often manage loan portfolios capitalized by Federal programs (e.g. SBA 504, HUD 108, EB-5), some through contract with City.
- Commonly used Federal sources include **Community Development Block Grants (HUD)** for housing, infrastructure, and anti-poverty programs, **504 (SBA)** to fund low-cost loans for small businesses to purchase real estate, machinery, and other fixed assets, **7A (SBA)** for loan guarantees to small businesses, **CDFI Fund (Treasury)**, which provides certified Comm. Dev. Financial Institutions (CDFI) with grants, loans, etc. for investment in low-income communities and includes the **New Markets Tax Credit (NMTC)** program.
- Business Oregon operates a range of programs targeted directly towards businesses or entrepreneurs. Programs for local agencies are limited but include the **Special Public Works Fund**, which provides grants and low-interest loans for public facilities (e.g. airports, ports, infrastructure, telecommunications), and loans from the **Brownfields Redevelopment Fund**.

STATE OF CALIFORNIA
Cap and Trade (Greenhouse Gas Reduction Fund)

- In 2006, the State of California passed legislation (AB 32) to reduce carbon emission to 1990 levels by 2020, a 15% reduction compared to business as usual.
- Empowered by AB 32, the market-based cap and trade system was initiated in 2012, setting an annual limit on the allowable amount of greenhouse gases (GHGs) emitted by industry and selling a finite number of permits for emissions.
- Generated $969 million through the end of 2014, funding emissions reducing projects including active transportation, high speed rail, transit-oriented development, affordable housing, energy efficiency, weatherization, conservation, forestry, etc.
- Required strong political will at the State level to enact legislation and develop consensus on eligibility of potential projects.

Federal & State Funds
Key Findings and Considerations

Federal sources can be impactful, but PDC must compete with other cities and States. Securing funds requires strong relationships and persistence from staff and elected officials.

IMPACT	
Financial Impact	Can be impactful, particularly Federal programs, but generally not the primary source for peer organizations other than those that are focused on housing. Funds may layered between multiple programs and between Federal and State.
Flexibility	Largely restrictive, some intergovernmental programs are highly restrictive and directed at specific uses (e.g. NMTC, 504) while others provide some flexibility (e.g. CDBG).
Predictability	Federal funds can be unpredictable due to competition with other cities and States. Highly dependent on priorities of Federal or State government, which may or may not align with PDC.
FEASIBILITY	
Political Viability	Highly viable from local perspective. Requires relationships with agencies and support from State and/or Federal legislators to secure funds.
Cost to Obtain	Relatively low cost, requires staff and resources to monitor funding opportunities and prepare applications. Intergovernmental funds may be pursued in conjunction with private and philanthropic dollars, some programs may require local matching funds.
Time to Obtain	170+ Federal programs for economic dev., requires thorough research to identify most viable opportunities. Can be time-consuming and requires persistence by staff, local elected officials, and State/Federal legislators.

General Funds
Precedents

City general funds are a major source of funding for some peer organizations and provide more flexibility than most other funding sources.

- General funds are **one of the most flexible funding sources** as they can usually be used for operations, programs, and/or capital projects.
- Serves as a **major source for some peers**, particularly those organized as city departments.
- Appropriations fluctuate due to annual appropriations, **political and budgetary constraints** ultimately determine financial impact, but greater dependence may lead to **less autonomy** with respect to project priorities and mission focus.
- Some organizations receive **long-term commitments for general fund appropriations for specific economic development activities** (e.g. Austin's Economic Incentives Reserve Fund, below).

AUSTIN ECONOMIC DEVELOPMENT DEPARTMENT

Economic Incentives Reserve Fund

- The City of Austin transfers a portion of its general funds into an Economic Incentives Reserve Fund for the purpose of performance-based economic development contracts.
- The transfer is not subject to annual appropriations but the City can and has reverted funds to meet budget shortfalls and to fund other priorities.
- Funds are primarily used to pay for tax breaks, subsidies, and other incentives to corporations that meet proposed performance targets for job creation, recent recipients include Samsung, Facebook, Home Depot.
- The Fund is controversial and has come under scrutiny because of the quality of jobs that are generated, demonstrating the need for better performance metrics and monitoring of existing contracts.

General Funds
Key Findings and Considerations

General funds can be a flexible, impactful source of funding, but PDC must consider Portland's political context and the potential loss of autonomy that may come with these funds.

IMPACT	
Financial Impact	Highly dependent on political support and annual appropriations process. Among peers, general funds are a major source of funding only for city departments.
Flexibility	Can be highly flexible. Dependency may come at the cost of autonomy in mission focus and project priorities.
Predictability	Highly dependent on political context and political priorities; general fund appropriations are generally renegotiated on an annual basis and may fluctuate from year to year.
FEASIBILITY	
Political Viability	Any additional appropriations from the City general fund will likely be challenging.
Cost to Obtain	No startup costs, requires staff and PDC commissioners to engage with City Council
Time to Obtain	Varies, depends on political support and priorities.

TIF & URA Program Income
Precedents

Tax increment financing (TIF) is more flexible in other jurisdictions, reflecting a broader economic development focus beyond urban renewal.

- Tax increment financing (TIF) is a form of value capture whereby incremental tax revenues within a defined district are diverted and often capitalized to fund initial investments. In the State of Oregon, TIF districts are known as Urban Renewal Areas (URA) and any returns generated by TIF-funded investments (e.g. properties, loans) are known as Program Income.
- In other jurisdictions, most common tax increment sources are **property tax, hotel tax, sales tax, utility tax, and income tax.**
- Some jurisdictions have the option of **spending TIF proceeds outside of the originating TIF district**. In Texas, TIF revenues may be used to acquire right-of-way and easements necessary for transportation infrastructure that benefits the originating TIF district. With agreement from the City, funds can be used for affordable housing outside of the originating district.
- Other states with more flexible TIF statutes allow for the use of TIF proceeds for a wider range of economic development activities, including **workforce development**, **daycare**, **development marketing**, and **small business financing**.
- In Kanas City, Missouri, local TIF districts may use **State tax increments**, specifically up to 50% of State utility and income tax increment (equal to the City's portion of the State income tax paid by new employees whose jobs are directly created by a TIF project).

CITY OF CHICAGO COMMUNITY DEV. COMMISSION
Tax Increment Financing

- Illinois TIF legislation enables a wide range of uses for TIF funds beyond capital projects, including workforce development and daycare for children of low-income workers working for a business within the TIF district.
- Excess TIF funds can also be "ported" to adjacent districts or for projects that benefit multiple TIF districts.
- TIF Program Income is first directed toward paying off balance of TIF, excess proceeds are then remitted to the general fund.

TIF & URA Program Income
Key Findings and Considerations

TIF is politically challenging and may only be used for physical improvements within Urban Renewal Areas. Restrictions for URA Program Income are unclear and will require clarification.

IMPACT	
Financial Impact	Highly impactful and has funded the majority of PDC's urban renewal program and operations.
Flexibility	Funds are restricted to uses allowable by State law (physical improvements within the originating Urban Renewal Area), many of which do not align with PDC Strategic Plan goals.
Predictability	Dependent on growth of property taxes within URA. Most predictable within Central City, less predictable in areas with untested market potential.
FEASIBILITY	
Political Viability	Very challenging, limited political support for new or existing TIF. Unclear restrictions for Program Income, unclear potential for use outside of originating URA, may require an amendment to Oregon TIF statutes and/or approval by City Council to redirect funds.
Cost to Obtain	Existing program with little to no startup costs. Will require staff and resources to clarify Program Income restrictions and seek approval for new uses.
Time to Obtain	Highly uncertain and subject to political viability; limited support for TIF in the current political climate suggests a time-consuming process.

Special Assessments
Precedents

Special assessments are commonly used to fund capital projects and/or ongoing services that will directly benefit property owners within a defined area.

- Formation of a special assessment district is usually catalyzed by demonstrated need(s) for particular improvements and **require both political organization and buy-in from affected constituents** (in most jurisdictions, a majority vote of property owners).
- In some states, annual assessments can be capitalized as **special assessment bonds** to pay for upfront capital costs related to public improvement projects.
- Common forms of special assessments include:
  - **Utility Districts**: the most common type of special assessment district, formed for installation of water lines, sewer lines, etc.
  - **Local Improvement Districts (LID)**: used to fund public infrastructure such as transit, open space, infrastructure.
  - **Business Improvement Districts (BID)**: which retain, coordinate, and allocate funds for **enhanced services** (e.g. sanitation, private security, marketing, etc.) and occasionally **capital projects** (e.g. parking garage, streetscape improvements, etc.)
  - **Property Assessed Clean Energy (PACE)**: special assessments may be used as mechanism for financing property-specific improvements; a public agency or private service provider will pay for upfront costs and are repaid through special assessments over a set period.
- While no peer organizations are funded directly by special assessments, some have partnered with BIDs on specific projects or initiatives (e.g. PIDC has partnered with Center City District for business retention initiatives since the early 2000s.)

SAN FRANCISCO PROPERTY ASSESSED CLEAN ENERGY (PACE) & SEISMIC RETROFIT FINANCING PROGRAMS

- Requires State enabling legislation and a public agency sponsor (City of SF).
- Eligible projects include seismic retrofits, energy efficiency improvements, renewable energy, water conservation, and electric vehicle charging stations.
- Upfront costs are paid by a private service provider (e.g. AllianceNRG, CaliforniaFIRST), who are in turn backed by private lenders (e.g. Deutsche Bank).
- Repayment occurs through special assessment on property tax and is secured by lien on property, City provides credit enhancement through reserve fund.

Special Assessments
Key Findings and Considerations

Special assessment districts are usually administered by partner organizations (e.g. BIDs and LIDs), whose mission and use of funds may not directly align with PDC goals.

IMPACT	
Financial Impact	Potentially high but generally accessed by partner organizations (e.g. BID, LID). Depends on assessment rate and size of special assessment district.
Flexibility	Restricted to projects or services that will directly benefit the originating district's constituents. Uses may also be restricted by local enabling legislation.
Predictability	Highly dependable source of revenue, fluctuates depending on amount of new development and change in assessed value within a district.
FEASIBILITY	
Political Viability	Depends on the support of local property owners; many special assessments require a petition of support to be signed by some proportion of affected property owners (exact proportion varies by state and type of assessment); property owners have the right to appeal assessments when a petition is not required.
Cost to Obtain	Startup costs include dedication of staff resources for coordination with City, property owners, and completion of required feasibility/engineering studies.
Time to Obtain	Depends on political and property owner support and whether new enabling legislation is required. For new or untested programs such as PACE, may require extensive outreach to property owners and financial institutions.

Dedicated Taxes and Fees

Precedents

Dedicated taxes/fees provide a reliable funding source and reduce reliance on general funds.

- Most common sources are hotel tax, sales tax, and development fees. Other local sources include business license tax, utility license fees, car rental tax, payroll tax, income tax, and system development charges.
- Peer organizations who draw from dedicated taxes and fees include:
  - The Boston Redevelopment Authority charges developers a "linkage fee", comparable to **system development charges** in Portland, on a per square foot basis in order to fund workforce development and affordable housing.
  - The State of Indiana and Kansas passed legislation that enables **local option income taxes** for funding economic development activities in order to diversify sources of funding and to reduce economic development organization's reliance on general funds.
  - In Newark, New Jersey, travelers who rent cars at Newark Liberty International Airport must pay a 5% **car rental tax** that funds a range of City programs, including brownfield redevelopment and the operations of the city's economic development corporation.
- Flexibility of dedicated taxes depends on restrictions imposed by the **local enabling legislation.** Most peers who have dedicated taxes and fees **can use them for a wide range of economic development activities**, including administration and operations (e.g. Austin's utility tax). Some sources are dedicated to particular types of projects. (e.g. Austin's hotel tax).

AUSTIN ECONOMIC DEVELOPMENT DEPT.
Utility taxes

- Prior to 2014, Austin Energy fully funded the City's economic development activities. Since 2014, costs are shared by three City-owned utilities, with a small contribution from City general funds.
- The EDD also receives property and sales tax revenues via Austin's Economic Incentives Fund for performance based lending and hotel occupancy tax revenues for cultural arts projects.
- In FY2015, dedicated taxes and fees accounted for almost half (48%) of the EDD budget.

Dedicated Taxes and Fees
Key Findings and Considerations

Many of the City's taxes and fees are already dedicated towards other City bureaus or partners. PDC must either compete with other constituencies, advocate for additional taxes/fees, or identify a tax/fee with no existing constituency.

IMPACT	
Financial Impact	Potential impact could be great depending on percentage of allocation and specific tax or fee. For example, in FY2014-2015, the City collected nearly $80M in business license tax revenue.
Flexibility	Depends on local enabling legislation. Among peers, dedicated taxes and fees, while sometimes restricted to particular uses, are usually flexible.
Predictability	Highly predictable source of revenue, does not require annual appropriation.
FEASIBILITY	
Political Viability	Depends on specific tax or fee that PDC pursues. Sources with existing constituencies will be challenging (e.g. utility, payroll, transient lodging, car rental, system development charges). Increases to such taxes or fees are also likely difficult. In contrast, business license tax has no constituency and may be a viable option.
Cost to Obtain	Limited startup costs; requires staff and PDC commissioners to engage with City Council.
Time to Obtain	Depends on political support and competing constituencies.

Real Estate / Parking
Precedents

Publicly-owned real estate and parking assets provide a significant source of flexible and sustainable funding for many peer organizations.

- Real estate rental and long-term leasing income is a core operations funding source for many peers, including New York City Economic Development Corp., Boston Redevelopment Authority, Philadelphia Industrial Development Corp., and Cincinnati Center City Dev. Corp.
- Identifying a **source of capitalization** is critical. Many peers have contracts to **manage real estate on behalf of their respective cities or other public agencies**, rather than taking on formal ownership; some agencies must remit excess revenues back to City general funds.
- Highly **flexible and predictable source**, with limited to no restrictions depending on management agreement.
- Income may be generated from one-time disposition, long-term ground leases, rental income, and, for some agencies, equity participation; may be directed towards capital projects or operations.
- Cities or agencies seeking to extract value from their real estate but have no in-house capacity or expertise **may agree to share some but not all potential proceeds** with an economic development organization, such an arrangement can provide both agencies additional revenues.

NEW YORK CITY ECONOMIC DEVELOPMENT CORP.
Master Contract and Maritime Contract

- Majority of NYCEDC operating revenues are generated through rental income from City-owned properties under Master Contract and Maritime Contracts.
- Master Contract allows NYCEDC to retain revenues from sale or leasing, up to a predetermined cap.
- Maritime Contract provides reimbursements for management expenses, with excess revenues remitted to City on a periodic basis.
- For properties outside of these contracts, NYCEDC also provides fee for service project management and asset management services.
- In FY2014, real estate activities generated $189M for NYCEDC and funded approximately 80% of its estimated operations budget.

Real Estate / Parking
Key Findings and Considerations

With an endowment from existing PDC properties or from other public agencies, real estate and parking can provide a highly flexible, predictable, and impactful funding source.

IMPACT	
Financial Impact	Impact will ultimately depend on size and market potential of real estate portfolio. Provides a substantial financial impact for many peer organizations.
Flexibility	Depends on source of capitalization, City endowments or management contracts are very flexible while properties funded TIF are subject to TIF and URA Program Income restrictions.
Predictability	Stable and predictable, particularly rental income and long-term ground leases. One-time dispositions are more influenced by current political and market cycles.
FEASIBILITY	
Political Viability	City and PDC have historically prioritized public benefits (e.g. affordable housing, open space, etc.) over financial sustainability for PDC properties. Managing other City-owned properties will require buy-in and agreement on revenue sharing with City.
Cost to Obtain	Requires evaluation and prioritization of various PDC and City-owned properties. Requires additional staff time and capacity, which may be reimbursed through mgmt. agreement with City.
Time to Obtain	Depends on political viability and scale of real estate portfolio under consideration.

Lending (Debt)

Precedents

Lending returns and fees can provide a predictable source of funding. Potential impact depends on size of lending portfolio, risk and return profile, and breadth of fees collected.

- Loan portfolios are most **commonly capitalized by local or intergovernmental funds** (e.g. SBA, EDA, CDFI Fund).
- Most peer-administered loan programs target **below market-rate** returns, but some target **market-rate or above market-rate** returns particularly for high-risk borrowers who otherwise would not qualify for conventional financing from commercial banks.
- All peers charge borrowers **origination, application, and closing fees** - some at nominal rates for recovering underwriting costs, while others set fees at a sufficient level for recovering costs and cross-subsidizing below-market rate lending.
- **Returns are generally reinvested** into the portfolio, but depends on source of funds and associated funding agreement (e.g. Invest Atlanta manages a SBA 504 portfolio on behalf of the City of Atlanta, City has option to remit returns but rarely exercises this option).
- Some examples of EDO-administered loan programs include:
  - **Gap Financing** – peers often leverage conventional lenders for senior debt and retain a riskier junior position to close financial gap for small businesses, entrepreneurs, or developers.
  - **Revolving Loan Funds** – any returns are reinvested into loan fund and used for future projects.
  - **Microloans** – small loans, usually under $50,000, for start-up, newly established, or growing small businesses and entrepreneurs.
  - **Loan Guarantees** – economic development organization acts as guarantor for loan originated by commercial or non-profit lender, thereby reducing the need for significant upfront capital, guarantor is responsible for repayment if a borrower defaults.

PHILADELPHIA INDUSTRIAL DEVELOPMENT CORP.

Lending Income

- PIDC offers a wide range of loans, tax-exempt financing, and technical assistance to businesses, developers, and non-profits; these activities generate substantial earned income in the form of interest, and fees for application, loan origination, and closing.
- Loan origination fees are generally 1.5% of the loan amount.
- In FY2013, lending income generated $8M or 52% of PIDC's operations budget.

Lending (Debt)
Key Findings and Considerations

PDC may consider a more balanced mix of below market rate and market rate lending. Origination, application, and closing fees can recover costs and subsidize mission-driven loans.

IMPACT	
Financial Impact	Financial impact depends on targeted return and risk profile of borrowers. Additional origination, application, and closing fees can supplement loan returns.
Flexibility	Lending income tends to be flexible, as long as capital does not originate from restricted sources (e.g. TIF).
Predictability	Generally reliable but depends on PDC's ability to maintain a consistent level of lending activity, risk profile of loans, and PDC's competitiveness versus commercial and non-profit lenders.
FEASIBILITY	
Political Viability	Requires PDC to commit to market-rate and/or above-market rate lending. PDC has historically focused on below-market rate loans, changing lending practices will require internal and external buy-in.
Cost to Obtain	Will require local or intergovernmental funds to capitalize investment fund, but can attract private and philanthropic capital to increase impact of public investment. PDC has existing lending expertise, additional staff with appropriate expertise may be required if lending practice is expanded.
Time to Obtain	New underwriting standards will not affect current/outstanding loans. Will require time to realize higher returns from new loans. Origination, application, and closing fees can provide near-term support. Dependent on ability to secure capital for PDC investment.

Business Investment (Equity)
Precedents

Business investment is usually conducted through non-profit partners or mission-focused investment funds to leverage private and philanthropic interest.

- Most peer organizations support businesses with loans, grants, and technical assistance. Direct equity investment is rare.
- Requires **limited capitalization from local or intergovernmental** funds as investment is often part of **public-private investment funds** that leverage private and philanthropic investments (e.g. East End Growth Fund, Pittsburgh, PA; New York City Entrepreneurial Fund).
- Public investment is usually commingled and managed by a **professional fund manager** who is accountable to both the economic development organization and other investors.
- Potential equity investment options include traditional equity, **seed/angel investing** (investment in very early stage company, for proof-of-concept), and **venture capital** (investment in emerging or growth-stage company, for product development, business development, etc.)

HOUSING PARTNERSHIP EQUITY TRUST

Real Estate Investment Trust for Affordable Housing

- Only U.S. real estate investment trust (REIT) owned and operated by nonprofits.
- Launched in December 2012 with $100M in private and philanthropic funding, including funds from Citi, Morgan Stanley, MacArthur Foundation, and Ford Foundation.
- Non-profits seeking to acquire multifamily properties could not compete with private investors (including those who offer the same price) due to the time required to layer and execute multiple sources of public and philanthropic financing.
- REIT structure provides non-profits faster access to capital and provides private investors 5-7% below-market returns, targets impact investors seeking both social and financial returns.

Business Investment (Equity)
Key Findings and Considerations

Business investment, particularly in early stage companies or distressed communities, provides uncertain return but can be considered as a supplementary source of income.

IMPACT	
Financial Impact	Financial impact depends on size of portfolio, terms and risk profile of investments, and PDC's relative position in the capital stack. Most funds are managed directly by foundations, non-profits, or a professional fund mgr.
Flexibility	Business investment income is flexible, provided that funds do not originate from restricted sources such as TIF.
Predictability	Depends on the risk profile of investment and entry point of PDC equity (seed, Round A, B, C, etc.). Peers typically provide equity for early stage companies or distressed communities, returns are highly uncertain.
FEASIBILITY	
Political Viability	City Council and PDC commissioners have consistently supported prior seed investment funds. PDC, under current structure, must hold equity investments through an arms-length subsidiary.
Cost to Obtain	Will require local or intergovernmental funds to capitalize investment fund, but can attract private and philanthropic capital to increase impact of public investment. Startup costs are moderate given staff experience with two prior seed funds.
Time to Obtain	Dependent on ability to secure capital for initial PDC investment and time required for returns to flow from individual investments.

Fee for Service

Precedents

Fee for service tends to be a supplementary source and is generally used for cost recovery.

- Most common fees are for program administration, public-private development transactions, permitting, and project management. For most peer organizations, fee for service is a supplementary source, providing 5% or less of their total budgets.
- Organizations that do generate a substantial portion of their revenue through fee for service do so in conjunction with lending and/or asset management activities.
- Peers that collect fees for service include:
  - Civic San Diego, which collects **permitting fees, developer deposits, FAR bonus fees** as well as a **management fee** for downtown parking facilities that they maintain on behalf of the City.
  - Chicago Department of Panning and Development, which offers an **expedited development review process** for an additional fee, whereby staff will personally guide developers through all relevant forms and requirements and then approve or disapprove project within 72 hours. However, this fee is remitted back to the City's general fund.
  - Philadelphia Industrial Development Corporation (PIDC), which collects **software licensing fees** for Portfol, a multi-user portfolio management software created by PIDC.

NEW YORK CITY ECONOMIC DEVELOPMENT CORP.

Fee for Service

- NYCEDC provides project management services for other City departments and agencies, with focus on complex capital projects requiring public-private development expertise (e.g. Cornell Tech site was a NYC Health & Hospitals Corporation facility).
- NYCEDC's capital division currently manages approximately 200 design and construction projects, on behalf of itself and others.

Fee for Service
Key Findings and Considerations

Fee for service can be used to recover operational costs, but its potential to cross-subsidize other programs is limited.

IMPACT	
Financial Impact	Likely minimal; fees are a supplementary source and generally used for cost recovery. Most likely way of generating substantial fee for service would be entering into contracts with other City bureaus for ongoing services.
Flexibility	Highly flexible.
Predictability	Predictable, as long as PDC continues to offer services that add value to other bureaus and/or clients.
FEASIBILITY	
Political Viability	No major political challenges.
Cost to Obtain	Little to no cost to obtain; requires staff time to determine a competitive fee schedule commensurate with value added by PDC services.
Time to Obtain	Limited time required to obtain; can be implemented in the near-term.

FINANCIAL SUSTAINABILITY COMMITTEE

FUNDING SOURCES WORKSHOP: BRIEFING BOOK

OCTOBER 14, 2015

HR&A Analyze. Advise. Act. PDC PORTLAND DEVELOPMENT COMMISSION

DRAFT