FINANCIAL SUSTAINABILITY COMMITTEE

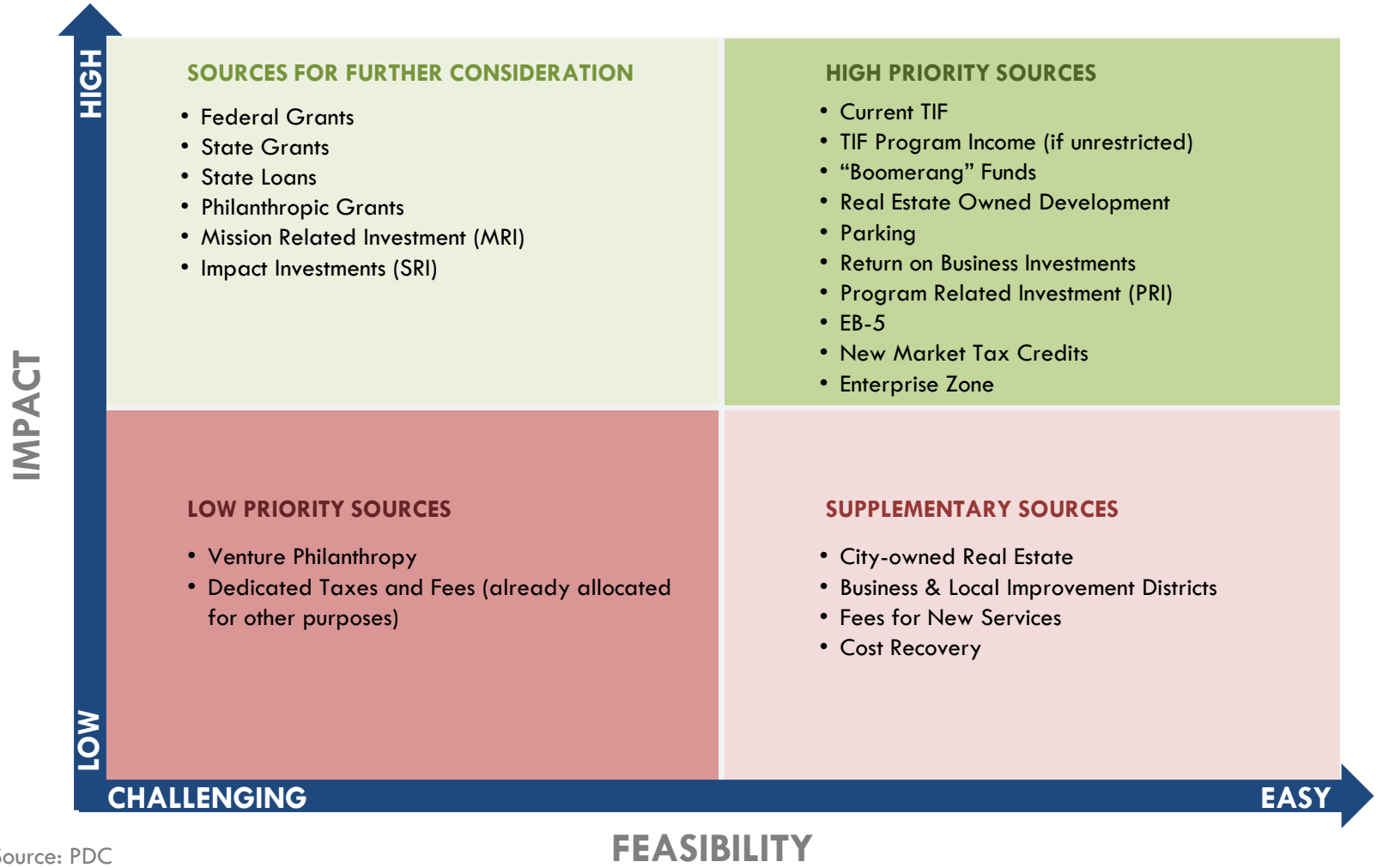
FUNDING SOURCES DEEP DIVE: BRIEFING BOOK

NOVEMBER 12, 2015

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

DRAFT

Based on FSC input, PDC prioritized potential funding sources for operational, program, and capital costs.



Source: PDC

The preceding matrix resulted from discussion and evaluation of each funding tool's **impact** and **feasibility** during FSC Meeting #2.

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

PDC and HR&A identified five major topics for the deep dive analysis.

1 **"Boomerang" Funds** or property tax revenues that make their way back to the City of Portland and other taxing jurisdictions as individual Urban Renewal Areas repay outstanding debt, reach maximum indebtedness, are terminated, or tax increment is no longer collected for other reasons.

2 **TIF/Program Income** including the potential for new Urban Renewal Areas, project-specific "spot districts" with limited duration and/or limited scope, and Program Income generated by new or existing Urban Renewal Areas.

3 **Real Estate** controlled by PDC, City agencies, or other public entities which may provide stable, long-term revenues.

4 **Parking** controlled by PDC, City agencies, or other public entities as well as financing for new parking assets.

5 **Organizational Best Practices** that will enhance PDC's ability to access alternative funding sources, such as impact investments, philanthropy, New Market Tax Credits, CDFI Fund, etc.

Boomerang Funds

TIF/Program Income

Real Estate

Parking

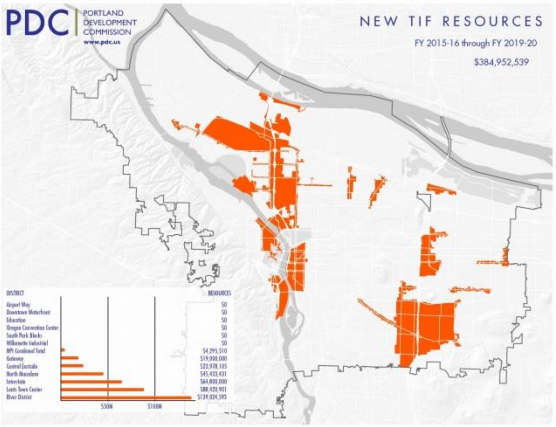
Organizational Best Practices

"Boomerang" funds consist of property tax revenues returned to the City and other jurisdictions after an Urban Renewal Area expires.

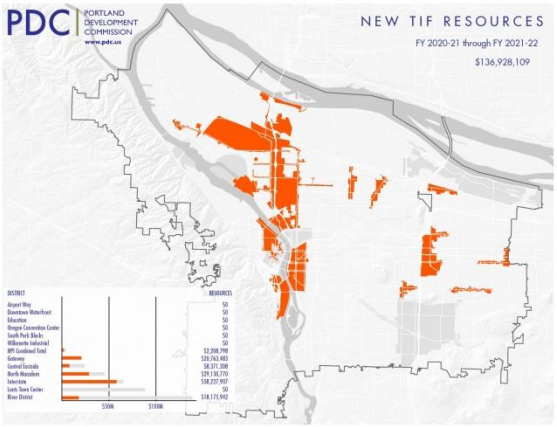
"Boomerang" funds consist of property tax revenues that make their way back to the City and other taxing jurisdictions as individual Urban Renewal Areas repay outstanding debt, reach maximum indebtedness, are terminated, or tax increment is no longer collected for other reasons. This is now occurring in California as former redevelopment agencies wind down operations pursuant to state law that ended the state's redevelopment system. Specifically, boomerang funds consist of:

- **One-time funds (Program Income):** Proceeds from one-time sales of TIF-funded assets (e.g. real estate, parking); and
- **Ongoing tax revenues:** Annual property tax or other property-related revenues that were previously diverted for debt service or "pay as you go" and are now returned to the general funds of the individual taxing entities.

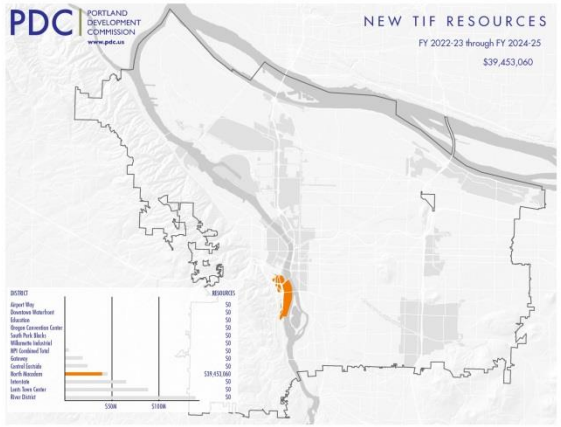
Expiration of Existing Urban Renewal Areas



FY2015-FY2020



FY2020-FY2022

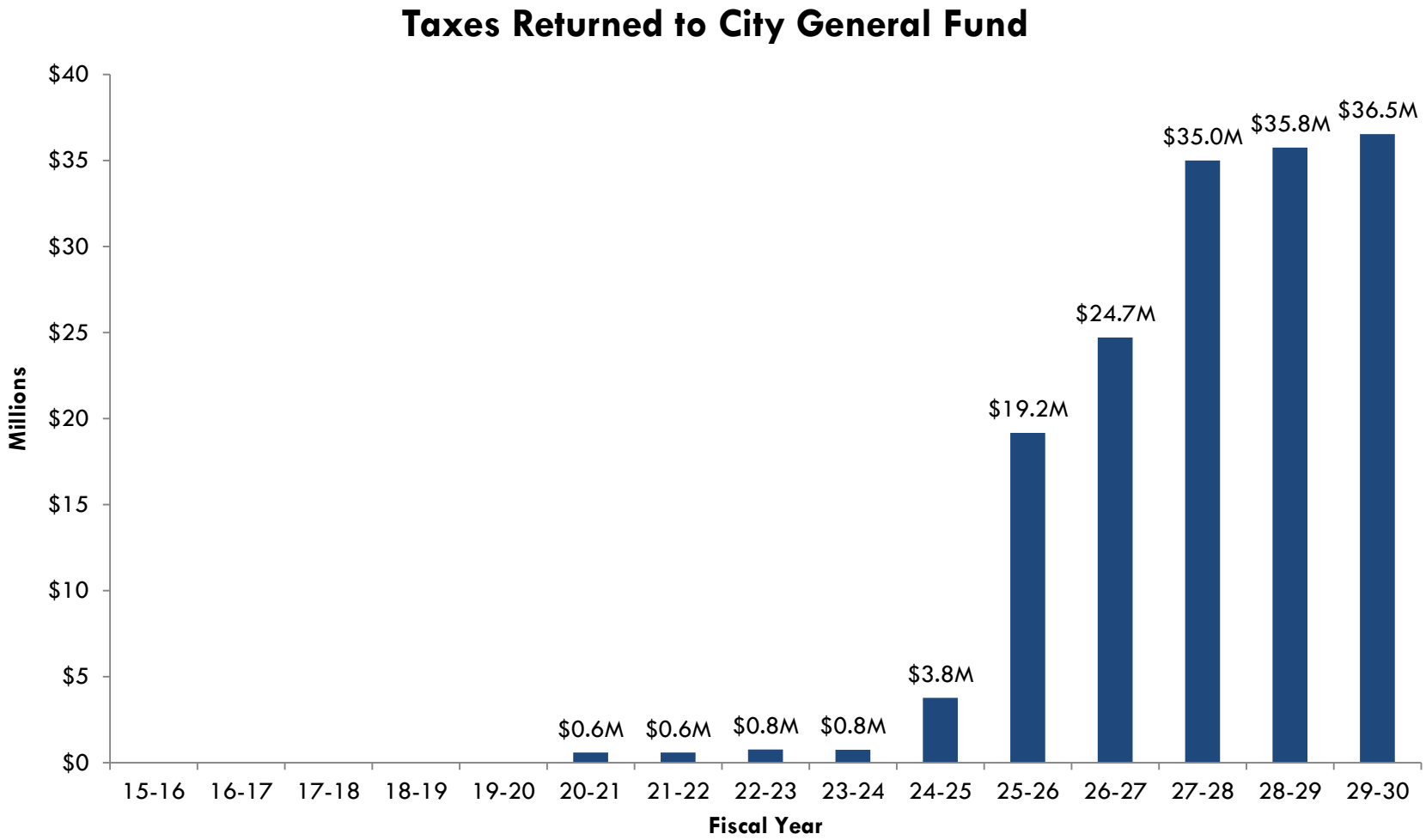


FY2022-FY2025

Outstanding TIF resources available | No new TIF resources available

Source: PDC

By FY2027-2028, expiring Urban Renewal Areas will generate over $35 million for the City's General Fund each year.



Source: PDC

Case Study: Los Angeles County Economic Development Trust Fund

CONTEXT

- Los Angeles County promotes economic development through its Community Development Commission (CDC).
- Since the dissolution of redevelopment in 2011, Los Angeles County has received **$618.8 million** in "boomeranged" property taxes; the CDC continues to provide housing and community development services and serves as the successor agency for redevelopment activities.
- To fill the resulting **gap in economic development services**, the County developed a *Countywide Economic and Community Development Program* and sought to identify sources of funding for its activities.

USE OF BOOMERANG FUNDS

- In October 2015, the County Board of Supervisors, who also serve as the Commissioners of the CDC, approved a motion to transfer $965,000 from **one-time sales of redevelopment assets to endow a County Economic Development Trust Fund**.
- In addition, the motion calls for the identification of $4.5 million in appropriations beginning in FY 2016-17, and incrementally increasing to $15 million in FY 2021-22. **All funding sources will be considered, with a focus on ongoing boomerang funds.**
- Economic development activities to be funded include **strategic planning**, **targeted industry clusters** activities, **manufacturing business loans** for local small and medium-sized manufacturers, a **storefront improvement program**, and a **Catalytic Development Fund** for transit-oriented development and commercial corridor revitalization.

LESSONS FOR PDC

- **Securing "boomerang" funds requires proactive political leadership and highly engaged constituents.** The County Economic Development Trust Fund was the result of strong leadership from a L.A. County supervisor and strong advocacy led by the County Business Federation and its business members.

Case Study: San Francisco Housing Trust Fund

CONTEXT

- Since the dissolution of redevelopment in 2011, the City and County of San Francisco has received **$34.1 million** of property taxes previously diverted for redevelopment purposes.
- In November 2012, recognizing the city's need for more affordable housing, San Francisco voters passed **Proposition C** with 65% approval, which created the **San Francisco Housing Trust Fund** to finance the development of up to 30,000 affordable rental units in the City.
- The measure was a result of a **compromise between real estate interests and affordable housing advocates**, including the Housing Association of Northern California and the Housing Advocacy Network.

USE OF BOOMERANG FUNDS

- Proposition C called for an initial appropriation of **$20 million**, which included **boomerang property tax revenues**, a small portion of the **hotel tax**, and an additional $13 million in new general fund revenue from an **increase in business license fees** (which was approved by voters through a separate proposition).
- The proposition provides **dedicated funding for 30 years**, gradually increasing to $50 million, at which point the yearly set-aside will be capped. Over its 30-year life, the fund is expected to generate about $1.5 billion in dedicated funding.

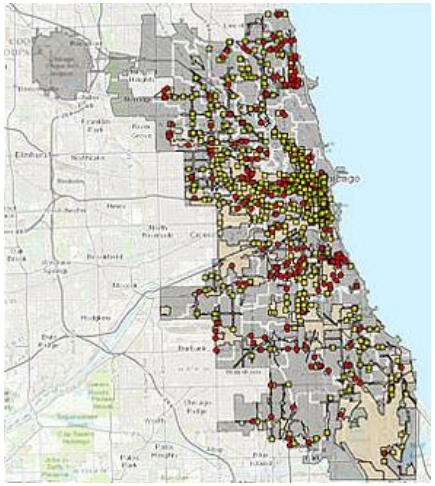
LESSONS FOR PDC

- **Boomerang funds could be one component of a diverse funding strategy.** Recognizing the limited amount of boomerang funds available, advocates successfully sought set-asides from other sources like the hotel/motel tax and business license fees.
- **Value-add must be clearly articulated in order to galvanize voter support and obtain political mandate.** While a public vote was not required for dedicating boomerang funds, the proposition provided a strong mandate for the City and galvanized local support through the joint efforts of several affordable housing non-profits and local activists.

Case Study: City of Chicago TIF Termination and Set-Aside

CONTEXT

- As of 2015, there are **165 active TIF districts** in the City of Chicago, accounting for approximately 30% of the City's land area and approximately 10% of the City's property tax revenues.
- Since TIF began in the City of Chicago in 1984, 173 districts have been created, two districts have expired, and **only six districts have been terminated**.
- The widespread and liberal use of TIF across the City has attracted controversy and a much higher level of scrutiny in recent years; challenges include the high number of TIF districts, limited transparency relative to the City budget, and diversion of funds for uses outside of original redevelopment plans.
- In 2011, Mayor Rahm Emanuel assembled a TIF Reform Task Force, which recommended that the City develop a **TIF termination policy** among other reforms.



USE OF BOOMERANG FUNDS

- In July 2015, the City identified seven downtown Chicago TIF districts for **early termination.** At the same time, the City is considering **expanding TIF to new areas** with economic development needs.
- The terminating districts are expected to return about $250 million over five years, including $125 million to the Chicago Public Schools and $50 million to the City's General Fund, with the remainder being **set aside for emergency infrastructure projects**.
- The plan also calls for adopting into law Mayor Emanuel's executive order that the City declare at least 25% of any cash balance from active TIF districts that is not yet committed to a redevelopment project as a **surplus** to be returned to Chicago Public Schools and the City's General Fund.

LESSONS FOR PDC

- **PDC could consider clarifying its guiding principles for initiating new and terminating existing TIF.** In order to increase transparency, PDC may consider developing formal or informal guidelines for initiating or terminating Urban Renewal Areas. This will help clarify the policy rationale for TIF for elected officials and the general public and can help support the case for new TIF or a set-aside from boomerang funds.

Boomerang Funds

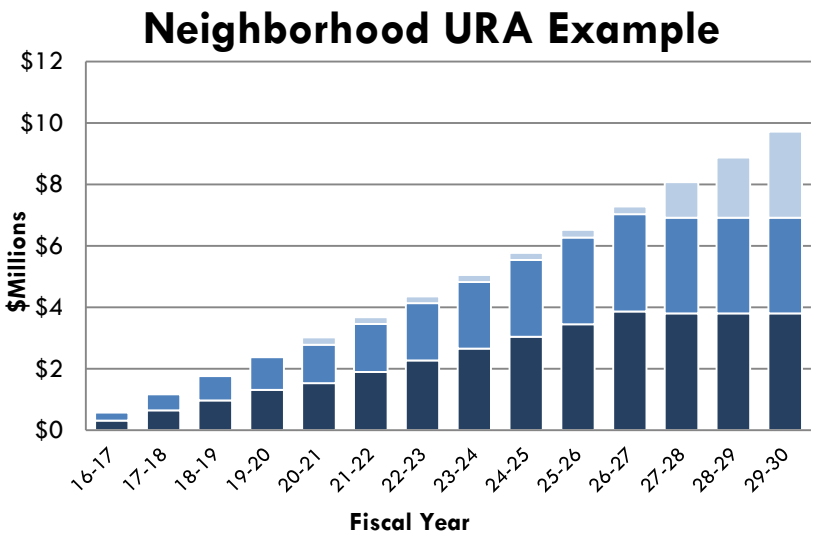
TIF/Program Income

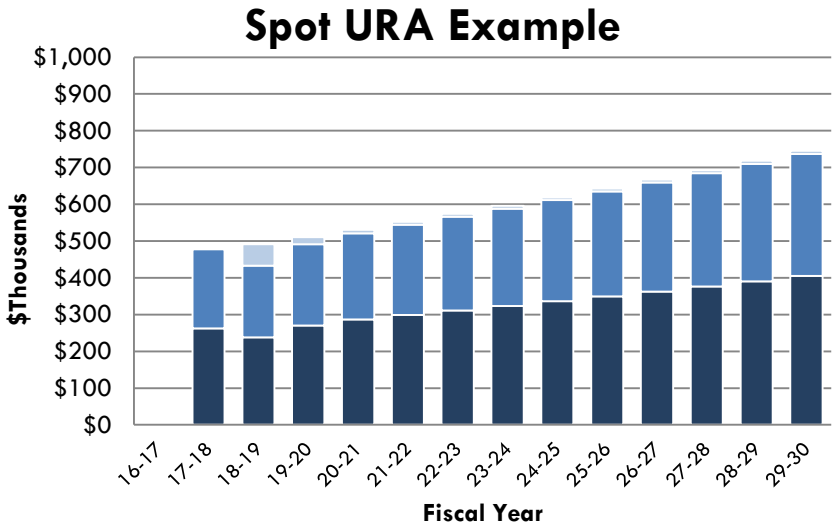
Real Estate

Parking

Organizational Best Practices

Project-specific TIF or Urban Renewal Areas with limited duration and/or scope may provide a viable alternative to traditional TIF.





Revenue Sharing | 45% for Housing | Net TIF for PDC

- Staffing and overhead costs for PDC URA administration are projected to be approximately **20% of future PDC controlled URA resources** over the next five-years. Amounts vary by specific URA.
- PDC's specific experience with smaller neighborhood focused districts (e.g. Neighborhood Prosperity Initiative districts) results in a **higher percentage of staffing and overhead costs** compared to larger, more traditional URAs (25%+) due to type of programming. These districts require other funding sources (primarily the City's General Fund) to cover these costs.
- **PDC has no direct experience administering project-specific "spot" URAs**. Costs in terms of percent of URA resources spent on staffing and administration could be higher or lower relative to other PDC URAs based on the type of project or program being implemented.
- **All URAs require startup funding to establish the URA.** Costs include studies and analysis (such as blight findings and financial feasibility), public outreach/process, coordinating with overlapping jurisdictions and other stakeholders, and facilitating the process through City Council.

Source: PDC

Case Study: City of Los Angeles Tax Subvention Program

CONTEXT

- In 2009, Los Angeles City Council began a process of formulating a **project-specific incentive program** that could support the development of additional hotels and support the City's economic growth, particularly within the Los Angeles Convention Center area.
- City Council identified **tax subvention** as a preferable source of funding, which initially called for the **dedication of a set percentage of future hotel tax** (Transient Occupancy Tax) revenues generated by a project. A formal city-wide policy has not yet been adopted, but projects have been approved for tax subvention incentives on a case-by-case basis since 2009.
- In 2014, City Council broadened the eligibility criteria and funding base of the incentive program for the Village at Westfield Topanga, a retail-driven mixed-use development that will receive tax subvention payments from **net new sales, hotel, utility, business license fees, and property taxes** over a 25-year term.
- Incentives are negotiated by the City's Chief Legislative Analyst, with final approval subject to approval by the Mayor and a vote by City Council.

BENEFITS AND CHALLENGES IN RELATION TO TRADITIONAL TIF

- Tax subvention **does not require issuance of debt** by the City; all incentives are provided through the dedication of future tax revenues generated by the project at hand.
- Projects are **not required to be within a "blighted" area.**
- As part of the application process, **developers must complete required studies,** such as development feasibility and economic impact analyses, and pay for independent third-party review of the studies.
- Tax subventions **only utilize the City's portion of incremental tax revenues**.

LESSONS FOR PDC

- **PDC could consider programs enabled by local legislation**, as opposed to State urban renewal statutes, to provide a more flexible alternative to traditional TIF.
- **Project-specific tax subvention can reduce lengthy processes and administrative costs** by eliminating the need for bond issuance and shifting application costs to the applicant.
- **Tax subvention for specific projects with clear policy rationale may be more politically palatable** than traditional TIF with unclear duration of time and more challenging to measure outcomes.

Case Study: California Enhanced Infrastructure Financing Districts (EIFD)

CONTEXT

- In 2014, California Governor Jerry Brown signed Senate Bill 628, which created Enhanced Infrastructure Financing Districts (EIFD) as a means of replacing infrastructure funding that would normally be drawn from TIF prior to the dissolution of redevelopment across the state.
- EIFDs allow participating jurisdictions to **divert and pool proceeds, including property tax increment bonds in addition to fees, assessments and other funding sources** for major infrastructure projects.
- Requires creation of an **"Public Financing Authority"** consisting of participating jurisdictions and members of the public to administer the EIFD and completion of an **Infrastructure Financing Plan**.
- Eligible projects include public infrastructure and private development projects; projects under consideration include the L.A. River revitalization project; Sacramento downtown revitalization; and the extension of the Bay Area Rapid Transit system into San Jose/Silicon Valley.

BENEFITS AND CHALLENGES IN RELATION TO TRADITIONAL TIF

- EIFDs **may draw from a wide range of funding sources in addition to property tax increment**, including special assessments, vehicle license fees, development fees, and hotel taxes (**school district funds are explicitly excluded**).
- Participation in an EIFD is **voluntary**; participating jurisdictions must form a Public Financing Authority, but this body is **not granted eminent domain powers** as with traditional redevelopment agencies.
- Affected areas do not need to be designated as **"blighted"** as is the case for traditional TIF districts.
- EIFDs **only require the approval of voters in the designated areas if jurisdictions plan to issue debt** and may be approved with a relatively low threshold for voter approval (55%).

LESSONS FOR PDC

- **Tax increment bonds may be supplemented with non-TIF sources.** In addition to property tax increment, EIFDs may also utilize other fees, assessments, etc. as part of a funding package.
- **Controversial TIF requirements may be reduced or eliminated.** EIFD participation is strictly voluntary, specifically excludes school district revenues, and does not provide the Public Financing Authority with eminent domain powers.

Case Study: City of Chicago Project-Specific TIF Districts

CONTEXT

- The majority of TIF districts in the City of Chicago are area-wide. The City also utilizes smaller, **project-specific districts** for major development projects or business corridors.
- Per State statute, TIF may be used for a **wide range of uses** including workforce development, relocation costs, professional studies, financing costs, etc.
- Project-specific tax increment is typically utilized **pay-as-you-go** as opposed to bonding. Specifically, the City provides an annual payment of incremental tax revenues to the developer, who is then responsible for **obtaining private financing** (and paying any associated issuance costs) for upfront development costs.
- **Administrative processes are similar to larger TIF districts**, but some projects may be eligible for expedited processes (see Streamlined TIF, right). If a district is initiated by a private applicant, the applicant is responsible for the costs of district formation.

BENEFITS AND CHALLENGES IN RELATION TO TRADITIONAL TIF

- Project-specific TIF districts generally involve **fewer property owners**, allowing for a *relatively* faster implementation timeline.
- The pay-as-you-go structure **avoids costs associated with bond issuance.**
- The **developer remains liable** for cost overruns and/or TIF revenue shortfalls, and in the case of developer-initiated districts, the **developer bears full cost of district creation**.
- More defensible, because tax increment revenue can be directly traced back to the benefitting project/developer.

LESSONS FOR PDC

- **Pay-as-you-go can reduce public costs** by shifting financing costs and cost overrun risk to the private sector. In some cases the developer pays for district creation as well.
- **PDC could consider streamlined processes for smaller TIF districts.** In combination with pay-as-you-go, PDC could consider simplifying the application and approval processes for smaller TIF districts (similar to Chicago's Streamlined TIF).

STREAMLINED TIF

- A type of project-specific TIF used to provide gap financing for small- and medium-sized improvements to industrial, commercial, retail or residential mixed-use properties within existing TIF districts.
- Can be used for a maximum of 25% of project costs or $1 million.
- Tax increment is provided as pay-as-you-go, eliminating the need for City bond issuance.
- Compared to traditional TIF, applicant benefits from expedited review and a less lengthy application and approvals process.

TRANSIT TIF

- As of September 2015, the Illinois legislature is considering a new form of TIF specifically for financing transit improvements.
- Does not require a finding of blight.
- Provides for a 50-year term as opposed to 23 years for a traditional TIF district.
- Only 80% of tax increment is set aside for TIF. Remaining 20% would go to the other affected taxing jurisdictions.
- Any tax revenues for Chicago Public Schools are specifically excluded.

Boomerang Funds

TIF/Program Income

Real Estate

Parking

Organizational Best Practices

PDC real estate redevelopment opportunities fall into three categories.

VERY LARGE OPPORTUNITY

U.S. Post Office site.

OTHER CENTRAL CITY OPPORTUNITIES

PDC-owned assets within Central City urban renewal areas that could be developed for both mission and financial sustainability.

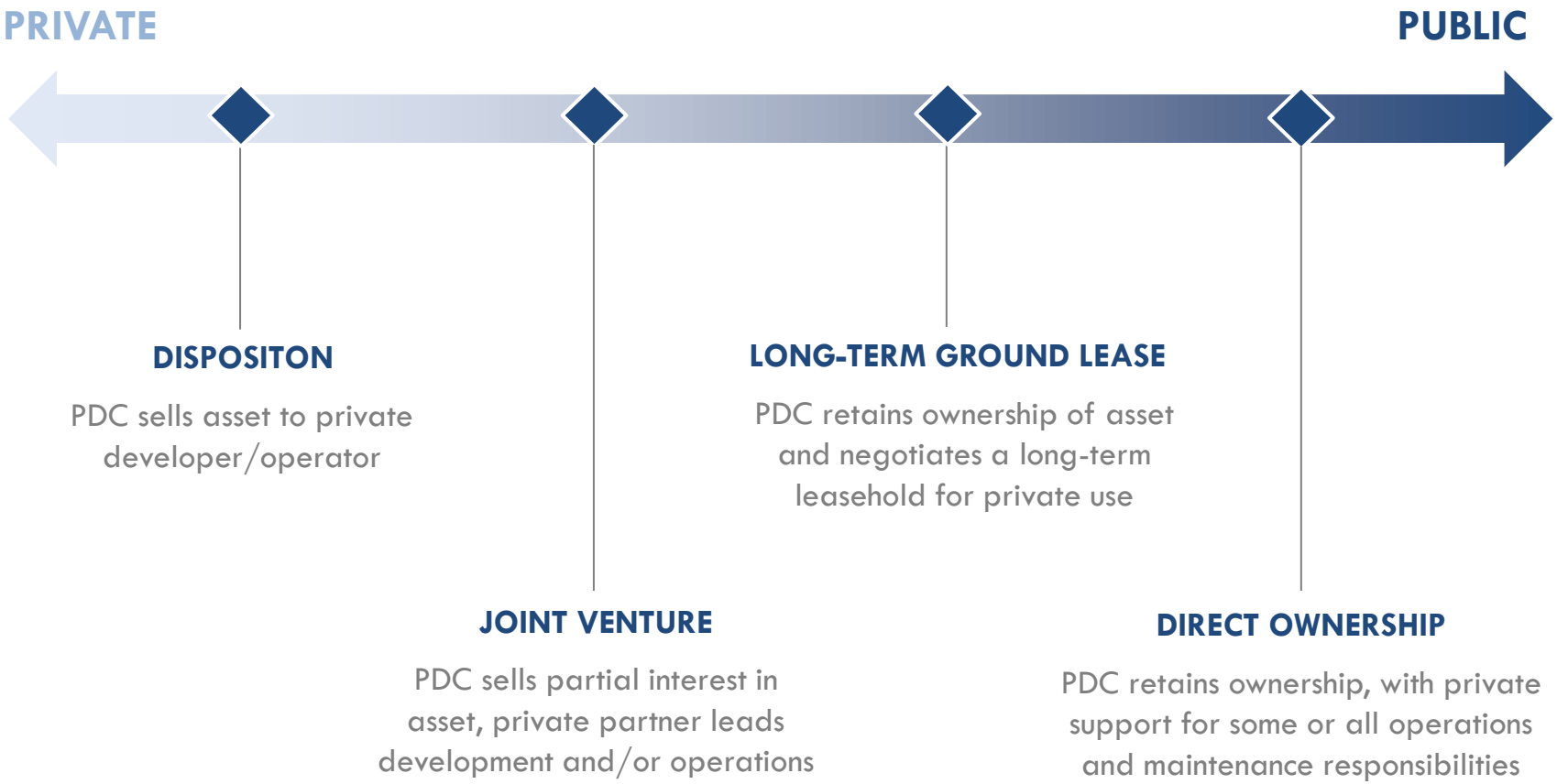
NEIGHBORHOOD OPPORTUNITIES

PDC-owned assets within neighborhood urban renewal areas that could be developed for both mission and financial sustainability.

- Redevelopment opportunities are parcels that are sufficiently large and entitled.
- All properties within PDC's current portfolio were purchased with TIF proceeds and are subject to Program Income restrictions.

Source: PDC

Real estate can be monetized through a range of deal structures.



Disposition/Joint Venture

BEST PRACTICES

- Economic development organizations may create real estate value for a private partner by:
  - Obtaining **zoning changes or variances** prior to disposition; this may include increased density and/or change in land use.
  - Investing in **horizontal improvements** such as infrastructure, environmental remediation, site preparation, etc. prior to sale.
- Value can be monetized through:
  - **Full disposition**, the most typical approach for monetizing assets by a public agency.
  - **Partial disposition/joint venture**, which are less typical but allow an agency to retain a partial interest and participate in potential upside from development and/or operations; joint ventures are most often used for major public facilities (e.g. train station, airport terminals) and rarely for private developments (e.g. residential, office, etc.).
  - **Earn-out provision**, which can provide additional payments after a disposition should a private partner exceed a predetermined return threshold within a certain time period (e.g. disposition of Port Authority of NY & NJ-owned retail assets at World Trade Center, NYC).
- Value may also be captured indirectly through:
  - **Negotiated exactions, special assessments, or development impact fees** that may be used to sustain public benefits such as open space, transit, infrastructure, affordable housing, etc.
  - **Deed restrictions or easements** that provide guidance for land use, tenant mix, affordability, sustainability, design, and/or building typology.

KEY CONSIDERATIONS FOR PDC

- **Strengths.** Potential to maximize upfront payment, minimizes risk, and reduces need for ongoing management or oversight. Full disposition is typical and most attractive to private developers/operators.
- **Challenges.** Does not provide long-term cash flow for PDC. One-time payments are typically used to repay cost of upfront horizontal improvements or to sustain ongoing public benefits.

Long-Term Ground Lease

BEST PRACTICES

- Similar to disposition, economic development organizations can create value by obtaining zoning changes or investing in horizontal improvements prior to entering into a long-term ground lease. Similarly, value can be captured through exactions, special assessments, impact fees, etc.
- Commonly used by Boston Redev. Auth., Port of Seattle, Port of San Fran., PANYNJ, among others.
- In a ground lease, **the owner/lessor retains fee simple ownership** of the land and enters into an agreement with a private developer/lessee. In contrast with disposition:
  - Lessee may only use the land for a predetermined period of time; typically 50-99 years for the initial term and may include an option for one or more renewal terms.
  - Any buildings or improvements are subject to zoning and restrictions by the owner/lessor.
  - Leasehold transfer may be subject to approval by the owner/lessor and is limited to the remaining years of the original lease.
  - At the end of the lease period, land reverts to the owner/lessor; depending on initial agreement, ownership of any buildings and improvements may also revert to the owner/lessor.
- During the lease period, the **lessee provides rent payments** to the owner/lessor:
  - Rent is typically paid annually and may be fixed or adjusted annually based on the Consumer Price Index or another index as agreed upon by the lessor and lessee.
  - Rent may also be adjusted periodically based on the appraised value of land.
  - Rent may be lower during the construction period and increased incrementally to full rent.
- Ground leases may include **profit sharing provisions** that allow the owner/lessor to participate in rental income, condo sales, and one-time capital events such as leasehold sales, refinancing, etc.

KEY CONSIDERATIONS FOR PDC

- **Strengths.** Provides long-term cash flow for PDC, allows PDC to retain ownership and participate in land appreciation and profit sharing.
- **Challenges.** Net present value of ground lease payments is typically lower than full disposition; requires ongoing oversight of lessee; local developers are less familiar with ground lease structure.

Direct Ownership

BEST PRACTICES

- Some economic development organizations own and manage properties, including New York City Economic Dev. Corp., Philadelphia Industrial Dev. Corp., Cincinnati Center City Dev. Corp., Port of Seattle, Port of San Francisco, and Port Authority of New York and New Jersey.
- Unlike disposition, joint ventures, and ground leasing, direct ownership provides **long-term revenues** and requires **ongoing responsibilities** in leasing, property management, and asset management. These responsibilities may be:
  - **Conducted by in-house staff:** Typically for smaller properties and/or agencies with smaller portfolios. Requires in-house capacity and expertise. Agencies may seek outside brokers for leasing when necessary.
  - **Outsourced to private operators/managers:** Typically for larger, more complex properties and/or agencies with significant real estate portfolios. Leasing and property management are most commonly outsourced activities, with most agencies retaining responsibility for asset management and oversight of brokers and property managers.

KEY CONSIDERATIONS FOR PDC

- **Strengths.** Provides long-term cash flow for PDC; allows PDC to retain ownership, participate in long-term appreciation, and utilize assets for economic development purposes (e.g. incubator space).
- **Challenges.** Requires ongoing management by either in-house staff or third party property managers.

Case Studies: Real Estate Deal Structures

DISPOSITION

TRANSBAY TRANSIT CENTER
TJPA | SAN FRANCISCO

- Managed by the Transbay Joint Powers Authority (TJPA), a joint exercise of powers authority between the City and County of San Francisco, the Alameda-Contra Costa Transit District, the Peninsula Corridor Joint Powers Board, and Caltrans.
- To finance the $1.9 billion Phase 1 of the Transbay Transit Center (TTC), TJPA has or plans to sell at least $510 million of formerly State-owned land to private developers.
- To encourage employment-oriented uses, parcels closest to the TTC are part of a Special Use District which restricts the amount of higher-value residential use.

LONG-TERM GROUND LEASE

LA PLAZA
LPCA | LOS ANGELES

- La Plaza de Cultura y Artes Foundation (LPCA) entered into a ground lease with LA County for token price of $1 per year for 99 years, and received additional county-owned land to leverage real estate assets for mission-focused activities.
- The foundation then invited development through an RFP process for sub-lease of land, with well-defined requirements for affordable housing, workforce training spaces and civic spaces.
- In return, developer is granted right to develop market rate retail and housing.
- Ground lease structured so that LPCA would get base rent, a percentage of developer's rental income in perpetuity, and also participation at sale.

DIRECT OWNERSHIP

BROOKLYN ARMY TERMINAL
NYCEDC | NEW YORK CITY

- 4-million-square-foot industrial complex owned by the City and managed by New York City Econ. Dev. Corp. (NYCEDC).
- NYCEDC provides long-term leases and subsidized rent to targeted industries.
- In 2014, rentable portions of the complex generated over $11 million in net operating income.
- Programs include the BioBAT, which offers wet lab/office space for biotech tenants, and Chashama Artist Studios.
- As part of a citywide initiative to support growth in tech and life sciences, NYCEDC plans to invest another $10 million to create a 55,000 SF advanced manufacturing hub.

Peer organizations supported by real estate revenues rely on interagency agreements and/or endowment of assets provided by their host City.

NEW YORK CITY ECONONMIC DEV. CORP. (NYCEDC)

- City-controlled 501(c)3 non-profit.
- Real estate portfolio acquired through endowment from predecessor agencies.
- Controls real estate through Maritime and Master Contracts with City.
- Real estate serves as primary revenue source for NYCEDC operations and economic development programs.
- City may request remittances to the General Fund to fund other programs.

PHILADELPHIA INDUSTRIAL DEVELOPMENT CORP. (PIDC)

- PIDC, a public-private non-profit, manages properties on behalf of city through the Philadelphia Authority for Industrial Development (PAID), a City-controlled public authority that is staffed by PIDC.
- Manages City real estate portfolio originally acquired through City, State, and Federal funds.
- Real estate activities are conducted through financing, payment, and management agreements with the City.

BOSTON REDEVELOPMENT AUTHORITY (BRA)

- City-controlled State-chartered public authority.
- Real estate portfolio acquired through merger with the City's Economic Development and Industrial Corporation (EDIC), which acquired underutilized or vacant industrial land on behalf of the City.
- Real estate serves as primary revenue source for BRA operations and economic development programs.
- Coordinates with but does not directly manage non-EDIC assets owned by other City agencies.

Case Study: NYCEDC Master Contract and Maritime Contract

CONTEXT

- NYCEDC was established in 1991 by combining two off-budget city non-profits for real estate and lending and two on-budget departments for maritime and economic development services.
- These **predecessor agencies provided an endowment** for NYCEDC's current portfolio of about 200 properties, including assets under long-term ground leases and under direct management by NYCEDC.

FINANCIAL TERMS

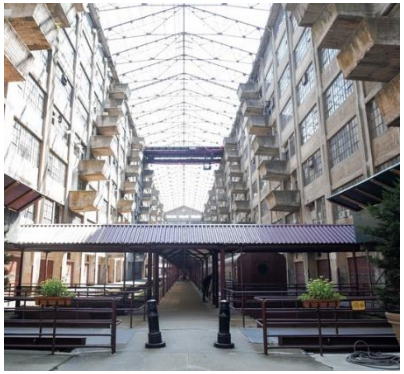
- NYCEDC manages City-owned properties under two agreements: the Master and Maritime Contracts.
  - For assets under the **Master Contract**, NYCEDC may retain (1) net revenues resulting from the sale or lease of City-owned properties, and (2) certain interest and other related income received by NYCEDC for financing programs administered on behalf of the City, up to the contract cap. Self-generated income by NYCEDC, including interest earned and certain fees earned for services rendered, may be retained by NYCEDC without regard to the contract cap.
  - For assets under the **Maritime Contract**, NYCEDC collects rents and other revenues from tenants and receives reimbursements for all costs incurred under the maritime contract. Any reimbursable expenses may be retained by NYCEDC out of the net revenues generated by maritime activities.
- Under both contracts, the **City may request remittance of net revenues above a certain threshold**.
- In 2014, NYCEDC was **required to remit $52.9M and $16.7M** (out of a total of about $189M in operating revenue) under the Master Contract and Maritime Contract, respectively.

GOVERNANCE

- Assets are **managed largely by EDC staff** under the overarching goal of attracting, retaining and expanding of commerce and industry in the City. For **high profile projects** (e.g. Applied Sciences NYC), the **Mayor and Deputy Mayor** for Housing and Economic Development are more actively involved and are responsible for negotiations with support from staff at EDC and other City agencies.

LESSONS FOR PDC

- **PDC should work with the City and other public agencies to identify opportunities** for leveraging PDC expertise and generating revenues for PDC, other City agencies, and other public entities.
- **PDC may generate revenues through fee-for-service or revenue sharing** with other City/public agencies.



Boomerang Funds

TIF/Program Income

Real Estate

Parking

Organizational Best Practices

Historically, PDC- and City-owned parking assets have been primarily financed through TIF bonds and parking revenue bonds.

CONTEXT

- City staff is working with a Parking Stakeholder Advisory Committee to update and simplify the Central City Transportation Management Plan (CCTMP) for improved parking space efficiency and to increase mode splits as the Central City grows.
- Proposals decrease parking maximums for "growth parking."
- Still to be determined: whether an updated policy can absorb all new growth or whether new structured parking will be needed.
- PDC has presented on gaps in certain Central City districts between financial feasibility of privately-built shared (more than one use) parking and is looking at assembling parking rights to build joint parking structures to address current demand and growth, while continuing to support transportation demand management.
- Addressing gaps would require changes to the CCTMP to equalize growth and preservation parking, as well as the ability to "bank" parking entitlements for future parking shared parking development.

FINANCING PUBLIC PARKING STRUCTURES

- The City owns seven parking garages in Downtown, which are collectively managed as Smart Park. Net revenues from six of seven are accounted for in the Parking Facilities Fund. The Fund generates $5.2 million in revenues each year and funds are currently pledged for a $29 million 25-year limited tax revenue bond for the Portland Streetcar.
- The first garage, built in 1969, was collateralized with street parking net revenues. Subsequent garages used the same formula, over time creating a system used to collateralize new facilities.
- Policy decisions would be required for PDC to utilize the City's Parking System to assist in financing of garages for PDC's financial sustainability.

Source: PDC

Case Study: Santa Monica Parking In-Lieu Fee

CONTEXT

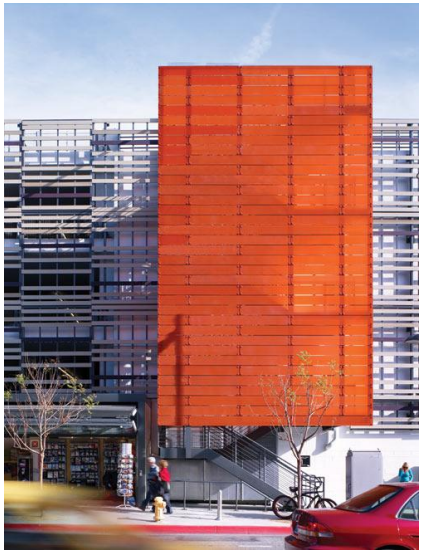
- **Parking in-lieu fees** provide developers the option to pay a designated fee rather than provide some or all on-site parking spaces required by the zoning code.
- Santa Monica City Council adopted the program in 1986 as a component of the Bayside Mall Assessment District, which served as a means of financing public improvements that were recommended in a larger economic development plan ("Mall Specific Plan").
- The fee program was significantly enhanced in 2013 in order to finance new **city-owned parking structures and to buy back parking spaces** leased by private businesses.

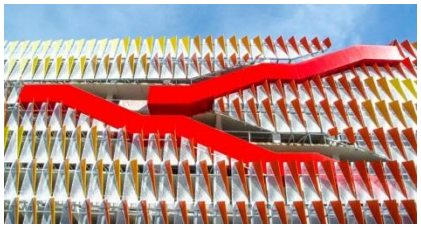
FEE STRUCTURE AND USES

- In 2013, the ordinance was updated to require **$20,000 per parking space not built**, which was expected to boost annual fee revenue above a fee that had not been increased since 1986, to about $1 million from about $600,000 per year.
- The parking in-lieu fee is applicable to **any new development or change of use** within the district boundaries that provides a net increase in square footage. Parcels are exempted from the fee if all of the parking spaces required by code are provided on site.
- Revenue is used to finance the **construction and operations of public parking**; the City is considering using these funds to support **Transportation Demand Management (TDM)** measures.
- As of 2012, the in-lieu fee program had accumulated a balance of approximately **$7 million**. The bulk of this $7 million reserve was dedicated toward the reconstruction of **Santa Monica Parking Structure No. 6** (pictured, bottom right), which includes the addition of approximately 400 new parking spaces as well as façade and pedestrian circulation improvements.

LESSONS FOR PDC

- **PDC may finance new parking structures through in-lieu fees**, creating a self-funded income-generating asset.





Boomerang Funds

TIF/Program Income

Real Estate

Parking

Organizational Best Practices

In order to access alternative funding sources, PDC is currently evaluating the potential for new organizational structures.

CONTEXT

- PDC was originally structured to utilize TIF for urban renewal. Other revenue sources and financing structures were not seen as essential to accomplish PDC's mission.
- Beginning about 15 years ago, PDC began exploring the creation of affiliated entities that could attract capital through programs such as New Market Tax Credits. Due to the governing structure of the affiliate, PDC no longer retains control over the new capital resources that were created.

PORTLAND ECONOMIC INVESTMENT CORPORATION ("PEIC")

- In 2013, PDC sponsored the creation of Portland Economic Investment Corporation ("PEIC"), a 501(c)(4) organization. Because PEIC has a narrowly focused mission and PDC serves on the PEIC board, PDC retains much greater control than with previous efforts.
- PEIC's current activity is limited to serving as the sponsoring entity for the Portland Seed Fund and the Inclusive Startup Fund, which were capitalized by PDC, the City of Portland, and other stakeholders.
- PEIC has no shareholders, and therefore isn't classified as a "commercial" entity.
- Under PEIC's Bylaws, the Board consists of members appointed by PDC, Greater Portland, Inc., and the Portland Business Alliance.

LESSONS LEARNED

- PDC charter allows significant flexibility in structuring and controlling affiliated organizations.
- The purpose, control, and utilization of affiliates must be clearly considered and articulated before the entity becomes operational.
- While PDC can't participate as an "owner" (shareholder) in an enterprise, it is permitted to control many forms of non-profit organization.
- TIF now represents only one method for funding urban renewal, community development, affordable housing, and business development. Many new funding sources require their own specialized entities. PDC's willingness to form such entities will directly impact the amount of capital it can attract.
- Funding has become more structured, with many "gaps" that require filling. PDC's ability to create adaptable and flexible structures will permit greater participation at different "gap" levels.

Source: PDC

Case Study: Invest Atlanta

CONTEXT

- **Atlanta Emerging Markets, Inc. (AEMI)** was established by Invest Atlanta as a wholly-owned subsidiary and Community Development Entity to manage the City's New Market Tax Credit program.
- The **Urban Residential Finance Authority (URFA)** was established to provide tax-exempt bond financing for residential housing and to provide down payment assistance.
- The **Downtown Development Authority (DDA)** was created to promote the revitalization and redevelopment of Downtown Atlanta by financing place-based projects.

GOVERNANCE

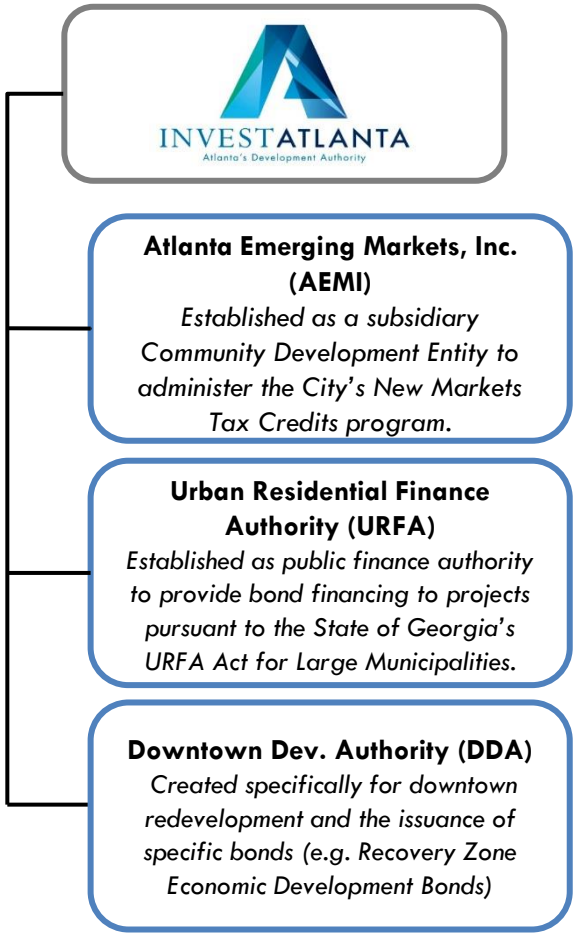
- AMEI is a **wholly-owned subsidiary** of Invest Atlanta and is staffed by Invest Atlanta through a management agreement. The AEMI **board is appointed by the Invest Atlanta board**.
- URFA and DDA operate as **departments within Invest Atlanta** and their **board is substantially the same as that of Invest Atlanta.**

BRANDING

- In 2012, the Atlanta Redevelopment Authority **rebranded** itself as Invest Atlanta, Inc. to better reflect its renewed focus on company recruitment and job creation.
- All subsidiaries conduct its activities under the Invest Atlanta brand.

LESSONS FOR PDC

- PDC can rebrand itself to shed its public perception as a place-based redevelopment authority.
- Subsidiaries could be controlled through **ownership and/or shared board membership.**



Wholly-Owned/Controlled Subsidiary Affiliated Entities

Case Study: Philadelphia Industrial Development Corporation

CONTEXT

- **Philadelphia Authority for Industrial Dev. (PAID)** is a public authority incorporated by the City and manages properties on its behalf; it also issues taxable and tax-exempt bonds and serves as a conduit for governmental contracts and grant funds.
- **PIDC Community Capital (PIDC-RDC)** is a Community Development Entity (CDE) and Community Development Finance Institution (CDFI) charged with attracting private, public and philanthropic capital for community lending and development.
- **PIDC Regional Center** is a partnership between the City, PIDC, and CanAm Enterprises that administers the EB-5 immigrant investor program in Philadelphia.

GOVERNANCE

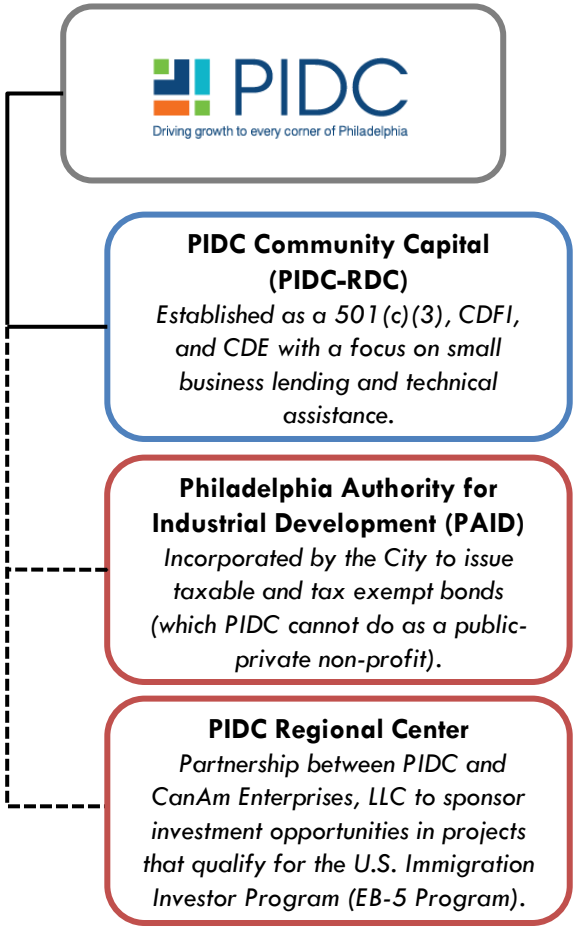
- PAID and PIDC-RDC have **independent boards, but are staffed by PIDC** through management contracts.
- The EB-5 Regional Center is jointly managed with CanAm Enterprises, a private investment management firm.

BRANDING

- PAID and PIDC-RDC are clearly branded as a subsidiary of PIDC, though project information is usually promoted under the PIDC banner.
- The Regional Center is co-branded with CanAm.

LESSONS FOR PDC

- PDC could consider **special purpose subsidiaries** to access funding sources (e.g. EB-5, NMTC, CDFI Fund) that would otherwise not be available.
- Coordination and control can be maintained through **shared staff and branding.**



Wholly-Owned/Controlled Subsidiary Affiliated Entities

Case Study: New York City Economic Development Corporation

CONTEXT

- **New York City Industrial Development Agency (NYCIDA)** is a public benefit corporation of the State and a component unit of the City of New York, providing access to double and triple tax-exempt bond financing (as the conduit bond issuer) and/or tax benefits to acquire or create capital assets.
- **Build NYC Resource Corporation (BNYC)** is a nonprofit local development corporation and a component unit of the City of New York and facilitates access to tax-exempt and taxable bond financing.

GOVERNANCE

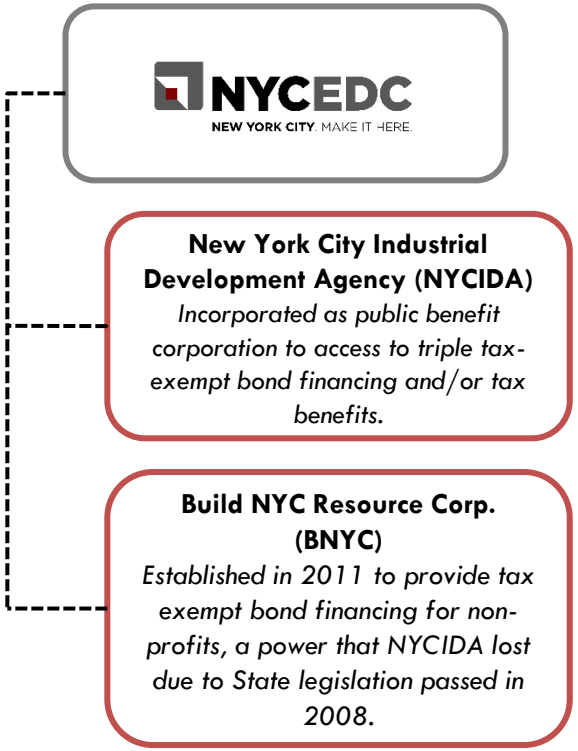
- Both entities are **staffed and administered by NYCEDC**.
- NYCIDA and BNYC share the same 15-member Board of Directors, which is independent of NYCEDC but whose appointment process is also **controlled largely by the Mayor (similar to the NYCEDC)**. The President/CEO of NYCEDC serves as the chair of both boards.

BRANDING

- NYCIDA and BNYC maintain separate brands, which are almost always used in conjunction with the NYCEDC brand.

LESSONS FOR PDC

- PDC could conduct its activities within **multiple legal entities** (e.g. 501(c)(3), 501(c)(4), public authority)
- Coordination and control can be maintained through **shared staff and branding.**
- The parent entity and its affiliates may have **independent boards, which are appointed/controlled through similar processes.**



Wholly-Owned/Controlled Subsidiary Affiliated Entities

FINANCIAL SUSTAINABILITY COMMITTEE

FUNDING SOURCES DEEP DIVE: BRIEFING BOOK

NOVEMBER 12, 2015

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

DRAFT