



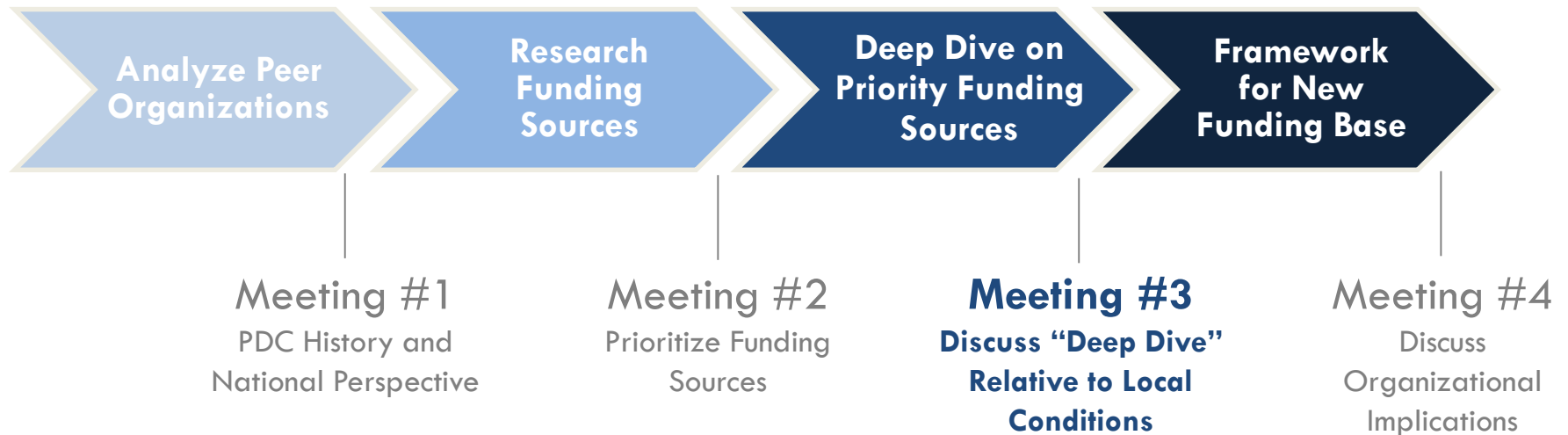
# FINANCIAL SUSTAINABILITY COMMITTEE

FUNDING SOURCES DEEP DIVE: OVERVIEW PRESENTATION

NOVEMBER 12, 2015

## Meeting #3: Discuss “deep dive” research on funding sources and their applicability to PDC’s new Strategic Plan.

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During FSC Meeting #2, committee members discussed and evaluated funding tools in terms of **impact** and **feasibility**.

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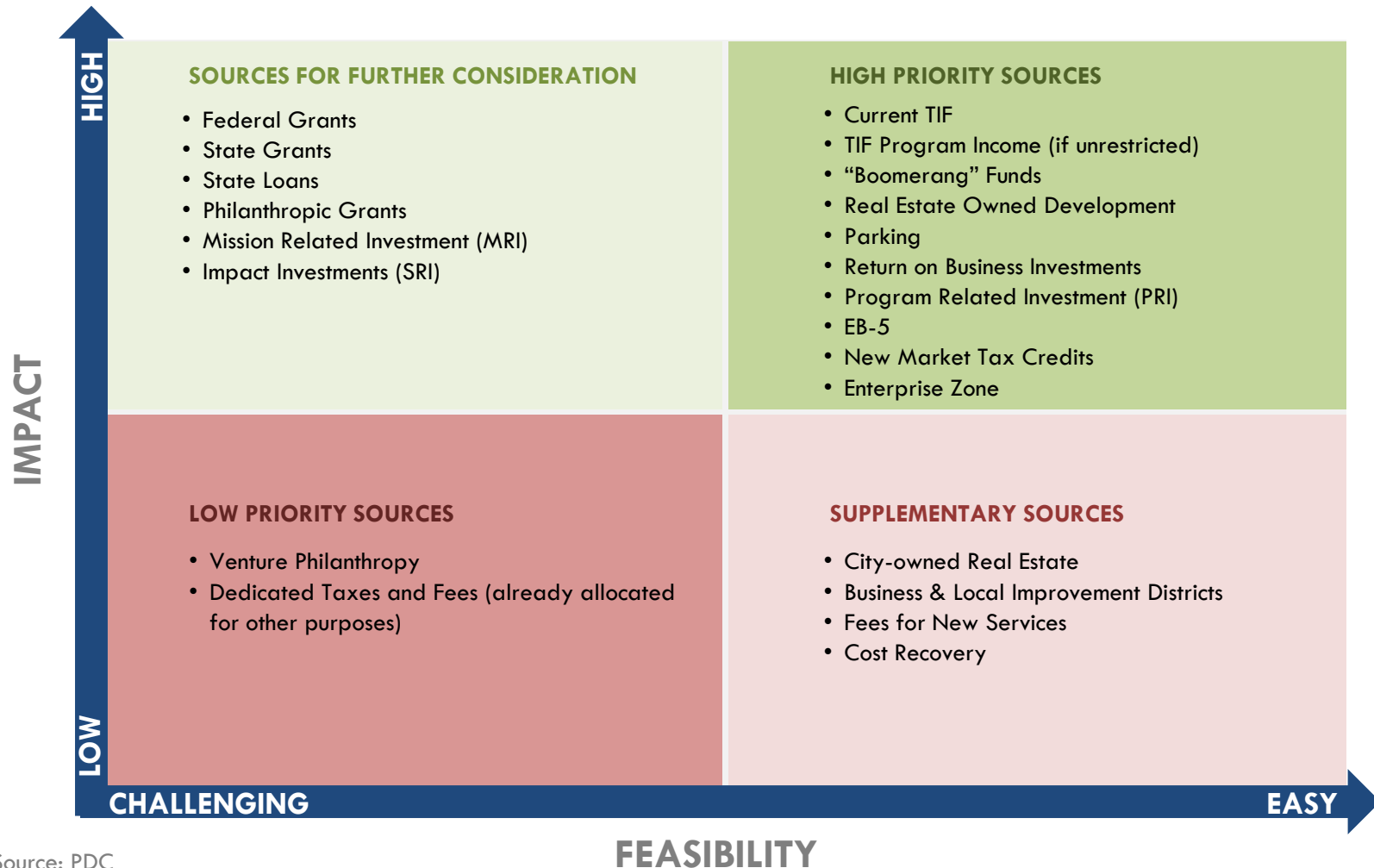
## WHICH FUNDING SOURCES ARE MOST **IMPACTFUL**?

- 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

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



Source: PDC

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

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- 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.

By FY 2027-2028, over \$35 million in “boomerang” funds will be returned to the City’s General Fund each year.

## WHAT ARE “BOOMERANG” FUNDS?

- “Boomerang” funds consist of property tax revenues that make their way back to the City and other taxing jurisdictions as individual Urban Renewal Areas are terminated.

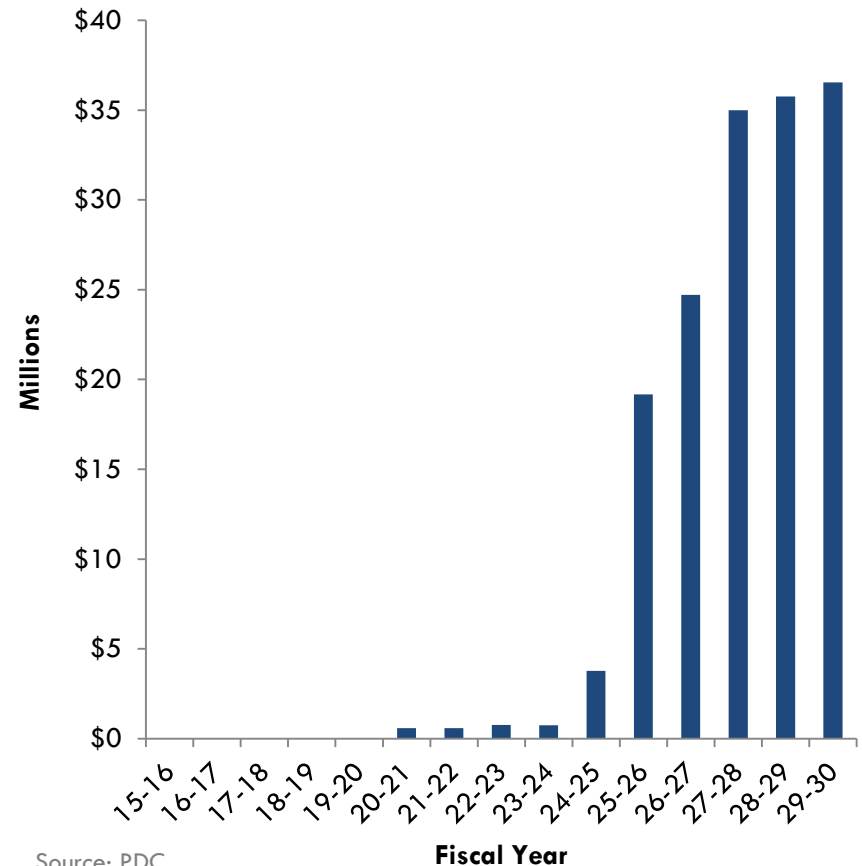
## CASE STUDIES

- Los Angeles County Economic Development Trust Fund
- San Francisco Housing Trust Fund
- Chicago TIF Termination and Set-Aside

## KEY LESSONS

- Securing “boomerang” funds requires **proactive political leadership and highly engaged constituents.**
- Boomerang funds could be **one component** of a diverse funding strategy.
- Value-add must be **clearly articulated** in order to galvanize voter support and obtain political mandate.
- PDC could consider clarifying its guiding principles for initiating new and terminating existing TIF.

### Taxes Returned to City General Fund



Source: PDC

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

### PDC CONTEXT

- 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.
- PDC has **no direct experience** administering project-specific (“spot”) URAs, though past work with neighborhood focused districts has resulted in **higher staffing and overhead costs** compared to larger, more traditional URAs (25%+) due to the type of programming.

### CASE STUDIES

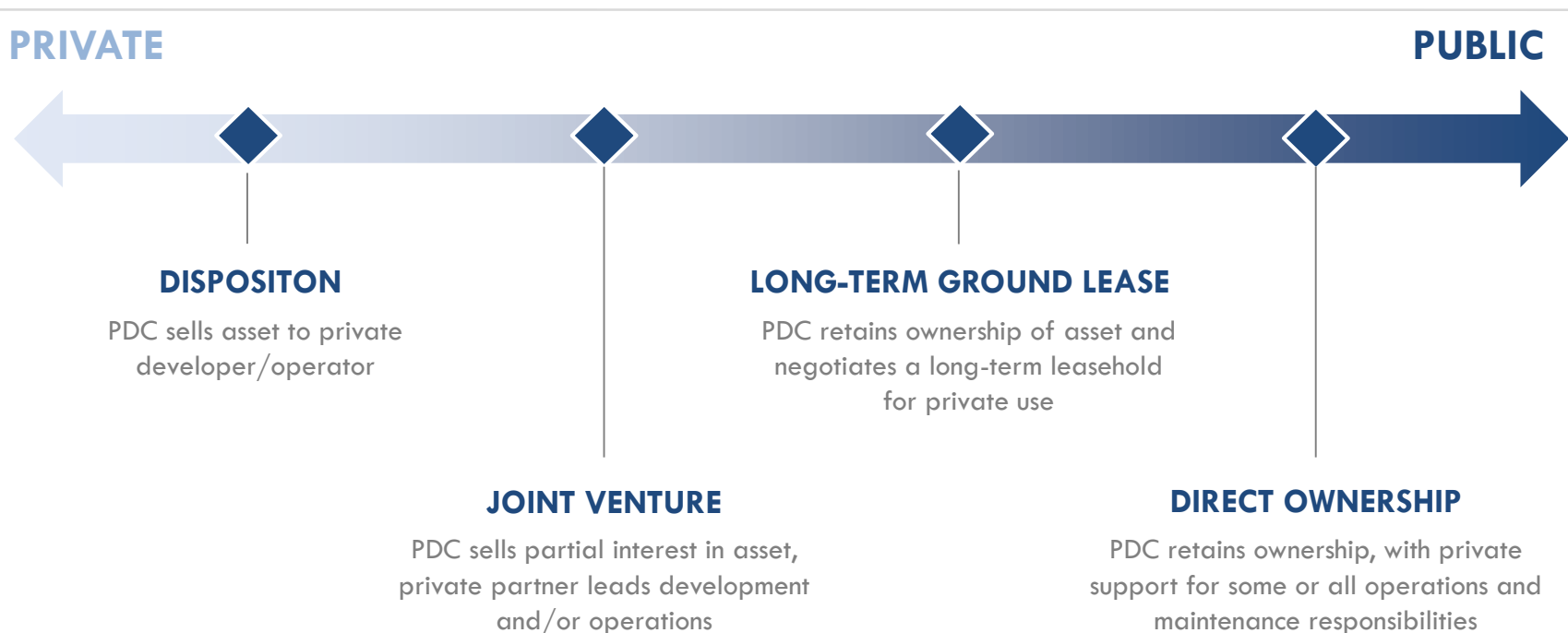
- City of Los Angeles Tax Subvention Program
- California Enhanced Infrastructure Financing Districts (EIFD)
- City of Chicago Project-Specific TIF Districts

### KEY LESSONS

- PDC could consider programs enabled by **local legislation**, as opposed to State urban renewal statutes, to provide a more flexible **alternative or supplement** to traditional TIF.
- **Eliminating** participation requirements and **safeguarding** certain types of public funds (e.g. school district funding) can improve political viability and public perception.
- **Pay-as-you-go** can reduce public costs by shifting financing costs and cost overrun risk to the private sector; in addition, formation costs of **privately-driven project-specific districts** are often paid for by the private applicant.



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



## KEY LESSONS

- Peer organizations supported by real estate revenues rely on **interagency agreements and/or endowment of assets** provided by their host City.
- PDC could 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, while city can benefit from potential of periodic remittances (e.g. NYCEDC Master and Maritime Contracts).



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

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### DISPOSITION/JOINT VENTURE

- **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

- **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

- **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.

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

## PDC CONTEXT

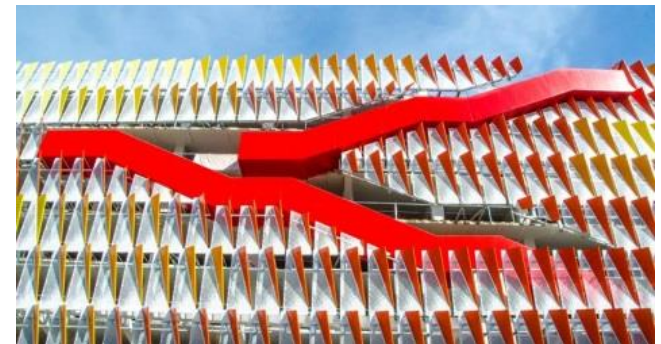
- The City of Portland **owns seven parking garages** in Downtown, which are collectively managed as Smart Park. Net revenues from six of seven are accounted for in the Parking Facilities Fund.
- The Fund generates **\$5.2 million in revenues** each year and funds are currently pledged for a \$29 million 25-year limited tax revenue bond for the Portland Streetcar.

## CASE STUDY: SANTA MONICA PARKING IN-LIEU FEE

- **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.
- The ordinance requires **\$20,000 per parking space not built**, generating about \$1 M in revenue per year for the construction and operations of public parking.

## KEY LESSONS

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



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



- Atlanta Emerging Markets, Inc.
- Urban Residential Finance Authority
- Downtown Development Authority



- PIDC Community Capital
- Philadelphia Authority for Industrial Development
- PIDC Regional Center



- New York Industrial Development Agency
- Build NYC Resource Corporation

## KEY LESSONS

- PDC could consider **special purpose subsidiaries** to access funding sources (e.g. EB-5, NMTC, CDFI Fund) that would otherwise not be available. This is common for peers such as Invest Atlanta, PIDC, and NYCEDC, who provide economic development services through **multiple legal entities** (e.g. 501c3, 501c4, public authority).
- Subsidiaries and/or affiliates may be controlled through **ownership and/or shared board membership**. In cases where affiliates have independent boards, they have **similar appointment processes** (e.g. mayoral appointment) that ensures coordination of activities.
- Coordination and control can also be maintained through **shared staff and branding**. Specifically, subsidiaries/affiliates are staffed and administered by their parent entities through management contracts.

## Questions?

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