

DATE: June 8, 2016
TO: Board of Commissioners
FROM: Patrick Quinton, Executive Director
SUBJECT: Report Number 16-34
Adopting an Updated Financial Investment Policy and Process for Internal Review and Approval of Financial Investments

BOARD ACTION REQUESTED

Adopt Resolution No. 7194.

ACTION DESCRIPTION

At the June 8, 2016, Portland Development Commission (PDC) Board of Commissioners (Board) meeting, PDC staff will request that the PDC Board approve amendments to the PDC Financial Investment Policy. If approved, these amendments would clarify the PDC Board's expectations of how PDC makes financial investments, including projects, loans, and grants, as well as update the role of PDC's Financial Investment Committee (FIC).

In addition to seeking approval to amend the Financial Investment Policy, PDC staff will take the opportunity to brief the PDC Board on the status of the PDC Long-Term Business Plan (Business Plan) (see a draft in Attachment A).

BACKGROUND AND CONTEXT

The PDC 2015-20 Strategic Plan (Strategic Plan) requires new and different funding to be a driving force for widespread economic prosperity. These resources must be more flexible than PDC's current main source of revenue, tax increment financing (TIF), which can only be invested in support of physical improvements to real estate. The geographic and investment restrictions of TIF also limit PDC's ability to implement its strategic priorities. If PDC is to maintain its leadership role in helping Portland grow with widely shared prosperity, new approaches to investment are necessary to ensure long-term financial sustainability. To meet the city-wide wealth and job creation objectives stated in the Strategic Plan, PDC must achieve a more sustainable balance between the financial risks and financial returns.

The PDC Board, at its April 8, 2015, meeting, directed PDC staff to convene a Financial Sustainability Committee (FSC) to provide advice on the development of a Business Plan to guide PDC's transition to long-term financial sustainability. The FSC met four times in 2015 and reviewed information provided by PDC staff and PDC consultant HR&A Advisors (HR&A). The FSC reviewed best practices of other development finance agencies and considered new revenue from public (local and federal), philanthropic, and private sources, which were all evaluated based on their potential impact and feasibility. At the end of this review, the FSC put forward recommendations to PDC staff for structuring a Business Plan to support the agency's strategic direction that will:

- Maximize both public benefits and financial return of remaining TIF funds.
- Clarify the guidelines for conversion of TIF-funded assets to unrestricted funds.
- Use PDC’s real estate portfolio as the basis for creating a long-term revenue stream for PDC.
- Pursue acquisition and development of properties and the redevelopment of other publicly owned properties.
- Use new TIF districts in a limited, project-specific manner to provide ongoing capital funding to catalytic public and private projects.
- Focus on “boomerang” revenue stream to the City of Portland (City) to partially offset the loss of TIF.
- Seek to maximize fee revenue to the agency.

At its May 16, 2016, meeting, the FSC recommended that PDC staff request that the PDC Board approve amendments to PDC’s Updated Financial Investment Policy for Internal Review and Approval of Financial Investments (Financial Investment Policy) to start guiding investment decisions before PDC experiences further depletion of its assets.

The amendments to the Financial Investment Policy would explicitly direct PDC staff, and the FIC’s review and recommendation of financial transactions to the Executive Director, to more strongly balance long term financial return considerations with mission-driven public benefits. Due to the expected reduced availability of project capital directly controlled by PDC, the updated policy also directs more focus on higher attraction of third party funds. Finally, there are additional directions to address preservation of capital through more fiscally stringent grant and infrastructure decision-making, and forthright and transparent treatment of loans that upfront are expected to be forgiven and thus grants, that also ties these decisions to other grant making decisions.

The substantive amendment to the Financial Investment Policy guiding FIC’s role is to expand the type of transactions requiring FIC review and recommendation to include debt financing where PDC will be the borrower.

COMMUNITY AND PUBLIC BENEFIT

PDC staff believes that amending the Financial Investment Policy will enable PDC to deliver on the Strategic Plan city-wide, with reduced reliance on future tax increment districts that divert financial resources from overlapping taxing jurisdictions and invest in limited geographies of the city.

PUBLIC PARTICIPATION AND FEEDBACK

The FSC, which has 13 members from the local financial community and two members from the PDC Board, has met five times to review information provided by PDC staff and consultant HR&A. On May 16, 2016, the FSC reviewed and provided feedback on the first draft of the Business Plan. On Wednesday, May 18, 2016, PDC staff briefed the Neighborhood Economic Development (NED) Leadership Group on the draft Business Plan.

Feedback from the FSC has led PDC staff to update its financial projections and re-order the structure of the Business Plan to emphasize PDC’s value proposition. Feedback from the NED Leadership Group included concerns about the impact of future economic cycles, reinforcing the importance of the agency’s position separate from other City bureaus, clear definition of “public benefit,” and whether PDC can deliver public benefits while making a greater financial return.

BUDGET AND FINANCIAL INFORMATION

There are no immediate budget impacts as a result of the proposed action to amend the Financial Investment Policy. However, there are longer-term budget implications from adopting the Financial

Investment Policy in that the principles will inform PDC staff activities, FIC recommendations, and both PDC staff-level and PDC Board approval of financial investments and transactions.

RISK ASSESSMENT

An updated Financial Investment Policy will change how PDC makes investment decisions by imposing more financially sustainable practices. Failure to shift investment decisions will maintain the current investment policy, which is projected to be financially unsustainable. There is a risk to waiting to adopt an updated Financial Investment Policy that could result in missed opportunities to obtain more financially sustainable returns on investment considerations before taking formal action on the Business Plan, which may take up to a year.

ALTERNATIVE ACTIONS

Should the PDC Board elect to not adopt the amendments to the Financial Investment Policy, PDC decisions would continue to be made as directed by the current policy.

ATTACHMENTS

- A. PDC Long Term Business Plan – 50% DRAFT

PORTLAND DEVELOPMENT COMMISSION

Portland, Oregon

REPORT NUMBER 16-34

ATTACHMENT A

**ADOPTING AN UPDATED FINANCIAL INVESTMENT POLICY AND
PROCESS FOR INTERNAL REVIEW AND APPROVAL OF FINANCIAL
INVESTMENTS**

Attachment A includes this cover page and contains 38 pages:

- PDC Long Term Business Plan – 50% DRAFT

Opportunity

Over the next 20 years, Portland will experience unprecedented growth and a transformation into a global economic center. The city is expected to add up to 260,000 new residents and 142,000 jobs. While Portland's growth is relatively certain, how this impending transformation occurs and, more importantly, who benefits, is less clear.

What is clear is that this new era will demand an approach to development, both physical and economic, that serves the city and its citizens more broadly. It's time for new tools and innovative ideas, using an agency that has the demonstrated track record and singular stature to effect such change: the Portland Development Commission.

PDC's 2015-20 Strategic Plan calls out a significant course change for the agency, one that requires different business practices and funding models to address the city's most pressing needs. In service to that strategic shift, this business plan proposes a path forward for PDC to continue its role as a public partner and doer for the city through investments, programs and policies to ensure that Portland's future prosperity is widespread.

PDC Matters

Created by Portland voters in 1958, the Portland Development Commission (PDC) has evolved as the city has. Chartered as Portland's urban renewal agency, with projects focused on infrastructure and redevelopment, PDC's capacity broadened in the 1980s to include economic development and job creation.

Historically, PDC investments have funded many of Portland's most iconic public places and amenities: Pioneer Courthouse Square, Lan Su Chinese Garden, the Eastbank Esplanade along the Willamette River, Waterfront Park, Director Park, the Portland Streetcar and MAX Light Rail. More recently, PDC business assistance has advanced a thriving entrepreneurial ecosystem as well as robust industry growth across key clusters like athletic and outdoor, advanced manufacturing, software, and green building.

PDC's housing investments just since 2000 total nearly \$400 million across a mix of market rate and low-income projects, with impacts throughout the city. Since 2009 the agency has collaborated with the Portland Housing Bureau, formed by City Council and charged with increasing the supply of affordable housing – including using the Tax Increment Finance (TIF) affordable housing set aside.

PDC's myriad accomplishments, past and present, define its critical role for the city. It is not simply the funder of infrastructure and business expansion, but rather a flexible actor between public and private entities, with the ability to purchase land and command a key role in convening multiple players for transformative physical and economic development.

Public-private partnerships require collaborators that honor commitments that span decades. PDC has played that role for the City of Portland, and its institutional capacity to lead change is unrivaled among city agencies.

1. What PDC does

PDC's mission is to create one of the world's most desirable and equitable cities by investing in job creation, innovation and economic opportunity throughout Portland.

PDC brings the following benefits to Portland:

- Direct financial assistance and business expansion activity to generate robust job growth.
- Increased investments in high-growth firms and entrepreneurs.
- Proactive, collaborative work to nurture local business success.
- A unique ability to convene partners from local government, the private sector, not-for-profit organizations, and higher education to implement economic development strategies.
- Support for entrepreneurship, exports, neighborhood economic development to fill market gap
- Focus on maximizing competitiveness, urban innovation, and neighborhood vitality.
- Commitment to Portland's economic growth through deliberate investments that focus on job growth, equity, sustainability and prosperity.

In 2015, PDC adopted a new five-year strategic plan with the goal of widely shared prosperity among all residents of Portland. That plan represents a historic shift – a course correction envisioning a different future for Portland and a new role for PDC in realizing that vision. Growth is taking place in Portland and will continue. PDC has the ability to make sure prosperity is widespread.

The strategic plan requires a deliberate and equal focus on building healthy communities, maintaining economic competitiveness, and creating equitable opportunities. It also lays out PDC's commitment to addressing issues of racial equity both within the organization and in its work. The agency is pursuing a long-term plan to become an antiracist multicultural organization.¹ In attempting this radical transformation, the organization is acknowledging its racist past and is attempting to interrupt institutional practices and behaviors and move toward a more inclusive organizational structure and decision-making.

In order to move the organization along this transformational path and achieve the strategic plan's outcomes, including wealth and income creation for communities of color, the agency's business model must identify the resource base necessary to fund this work. In addition, the plan must reflect the values of a transformed organization and assist rather than impede progress toward that goal.

¹ An Anti-Racist Multicultural Organization is an organization that 1) has restructured all aspects of institutional life to ensure full participation of People of Color, including their worldview, culture and lifestyles; 2) implements structures, policies and practices with inclusive decision-making and other forms of power-sharing on all levels of the institution's life and work; and 3) commits to struggle to dismantle racism in the wider community, and builds clear lines of accountability to racially oppressed communities.

2. History of Accomplishments

The Importance of Public Private Partnerships

The integration of transportation, housing, retail and parks is essential to the Portland model of placemaking and creating vibrant live/work neighborhoods, as is implementation based on public-private partnership. In downtown Portland, nothing is more emblematic of that model than the Pearl District, a development on a district scale that has succeeded beyond expectation. A key aspect of the public-private partnership was a complex, 300-page Master Development Agreement entered into by the developer, the City and PDC in 1997.

Over a 20-year period, PDC invested more than \$100 million in the district, leveraging more than \$2 billion in private investment. The streetcar began passenger service in July 2001; the district is home to three public parks. The first mixed-use condominium building opened in 2002, followed by dozens more. Twenty-five percent of the area's residential units serve low-income residents. The rest command some of the highest values in the region – a mix of housing choices that demonstrates PDC's distinctive ability to develop balanced, healthy communities.

Infrastructure and Parks

In the past fifteen years, PDC has contributed nearly \$200 million to the development of transportation systems and infrastructure (MAX Light Rail, Portland Streetcar, the Portland Tram, Tilikum Crossing) that are the envy of cities nationwide. Another \$142 million has funded the creation of public parks and recreational amenities throughout the city, including Dawson Park in north Portland, Gateway Urban Plaza in east Portland, and Caruthers Park in the South Waterfront. Indeed, PDC has been instrumental in preserving and paying for many of Portland's much-beloved public green spaces.

Economic Development & Entrepreneurship

In 2009, PDC embarked on an ambitious, innovative plan for citywide economic development that repositioned the agency and challenged some of the assumptions Portland held about its potential for economic growth. Five years later, PDC's work could be tied to Portland's strong emergence from the recession, with significant private investment leveraging public dollars, growing strength among targeted industry clusters, a renewed emphasis on the value of global trade efforts, a steadily declining unemployment rate and the creation of more than 25,000 net new jobs.

The Startup PDX Challenge and the Portland Seed Fund are among the strategic initiatives with lasting effect, earning both regional and national recognition. The Challenge has been a framework for inclusive entrepreneurship, inspiring ongoing civic conversations about equity in the startup world and follow-up initiatives to continue building a culture of equity.

PDC's investment of \$1.5 million in the Seed Fund leveraged an additional \$8.5 million in follow-on investment. By 2014 the Seed Fund had graduated 46 companies which created more than 350 new jobs. These firms attracted an additional \$53 million in outside capital, and four companies exited through acquisitions. The success of these initiatives also prompted the creation of the Inclusive

Startup Fund, a further evolution of PDC’s commitment to the support of minority-owned, emerging businesses.

Catalytic Neighborhood Projects and the NPIs

The adoption of the Neighborhood Economic Development Strategy in 2011 marked yet another milestone in PDC’s evolution toward new practices in encouraging growth and opportunity for a broader swath of the community. PDC and the City of Portland began intentional investments in building local capacity to support community-driven economic growth. The Neighborhood Prosperity Initiative (NPI) and Main Street Network focused this work at the grassroots level, providing staff support, funding and training. By 2015 the districts had collectively secured \$1.7 million investment by the private and philanthropic sectors to support district operations; generated 90,000 volunteer hours to support district activities; established 116 new businesses; and created 427 jobs.

Public benefit agreements have become a standard for much of PDC’s redevelopment work, detailing additional requirements to mitigate community impacts and generate commercial affordability for neighborhood businesses in exchange for public investment.

PDC has also played a critical role in large-scale physical improvements, from the creation of a new urban neighborhood in South Waterfront to transformational projects with significant impact for neighborhoods like the Portland Mercado, the June Key Delta House, and Dawson Park.

Housing Investments

TIF has been and continues to be an important tool for affordable housing. PDC’s housing investments include downtown’s Museum Place apartments and Eliot Tower condominiums, the Yards at Union Station, Killingsworth Station and Home Forward’s New Columbia in Interstate, Gray’s Landing in South Waterfront, and numerous projects from Lents to the Pearl District. Prior to the creation of the Portland Housing Bureau, PDC made thousands of loans to Portland homeowners to make needed repairs to their homes, ensuring that these houses remained up to code and were safe to live in.

In 2016, with the lack of available housing reaching emergency levels, PDC committed to a fifty percent increase in its affordable housing investment, setting aside an estimated total of more than \$300 million over the next ten years for collaborative projects with the Portland Housing Bureau and the community.

Value of Tax Increment Financing

The City of Portland has had a total of 20 tax increment districts, commonly called urban renewal areas (URAs) since PDC’s formation. Seventeen areas are active, including the six smaller districts that are part of the Neighborhood Prosperity Initiative. As of May 2016, the size of the 17 urban renewal areas is 14% of the total land area of the city, and the frozen tax base value is 12% of the assessed value of the city. A December 2012 audit by the City Auditor confirmed that urban renewal

areas produce higher job and wage growth than communities not in URAs, and most URAs attracted more investment than areas not in URAs.

The Airport Way Urban Renewal Area offers a good example of how TIF was intended to work: to allow for financing of public improvements that attract private investment. Created in 1986, this URA has attracted job-generating investment in the hundreds of millions and is home to standout companies in advanced manufacturing, food processing, transportation, and athletic and outdoor industries. From 1996-2009, market value of land and buildings increased 257%. Between 1999 and 2007, PDC provided loans in excess of \$7 million to Airport Way businesses, leveraging nearly \$114 million in private investment and helping businesses create an estimated 17,000 new jobs in the district since its inception. Millions of dollars have returned to the tax rolls.

PDC accomplishments are measured against other markers as well: job growth, numbers of businesses assisted, service to populations of color, investment capital for early-stage companies, export levels, unemployment rates and new business licenses. In FY 2014-15 alone, PDC generated the following outcomes:

- \$7.1 million in financial assistance attracted more than \$44.2 million in private resources and supported the creation or retention of 1,250 jobs
- An increase of 45% in grants made to people of color or organizations serving communities of color in the Interstate Corridor Urban Renewal Area and of 42% in the Lents Town Center URA
- The value of exports rose by 9.8 percent between 2003-2014;
- PDC business loans generated a 3:1 leverage ratio with private investment
- PDC storefront grants generated a 5:1 ratio with private investment
- Enterprise Zone enrollment drew \$173 million in private investment and created 400 jobs

The private leverage of PDC's investments is well documented. Over the past five years, PDC has, on average, attracted \$5 of private investment for every \$1 invested, and achieved leverage ratios of 25:1 on some projects.

3. Importance of institutional capacity to lead change

PDC's institutional stability and consistency are its defining characteristics in the context of Portland's long track record of sustained urban development. Development and disposition agreements, the agency's primary redevelopment tools, are effective largely because PDC has served as a reliable public partner to private entities over many years and across changing political administrations.

The value of a stable institution extends beyond agreements with the private sector. Economic development and neighborhood revitalization are long-term undertakings and require consistent strategy and effort to succeed. In many cases, this work is fundamentally about tackling systemic change. PDC's scale and stable funding base have allowed it to play this role for the city and made the agency a valued partner to community organizations and residents throughout the city.

PDC's organizational scale and stability have been largely the result of its access to a stable and sizeable funding source in TIF. This revenue source has allowed the agency to take a long-term view of its work and make multi-year commitments that provide comfort to partners as well. A new business model for the agency, therefore, cannot simply transition the agency into a City bureau dependent on annual appropriations to fund its work. The agency must pursue new recurring revenues to maintain the long-view perspective on its work as well as predictability for operating programs and funding community partners.

Challenge

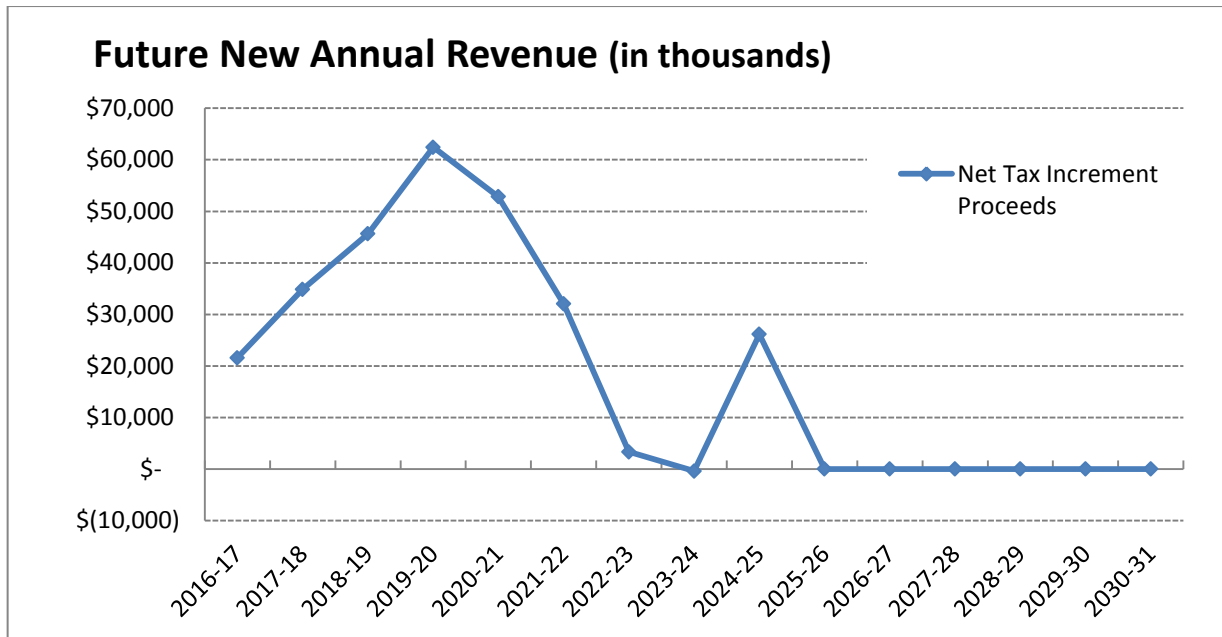
For nearly 60 years, PDC has been charged with the dual responsibility of investing Portland's urban renewal resources and implementing strategies to grow the city's economy. At a time when the agency is demonstrating results in addressing the city's most pressing economic disparities, however, PDC is facing a sustained decline in its resource base unmatched by any City bureau.

1. Declining TIF

Tax increment financing, a special property tax-based funding tool used to promote public and private investment within URAs, has historically served as the primary source of funding for PDC's projects, programs, and operations. Roughly 85% percent of PDC's financial resources comes from tax increment financing, and TIF has been effective in supporting physical and capital improvements within URAs that advance community plans and goals. The other 15% percent of PDC's financial resources comes from City general funds, federal grants, and administration of Enterprise Zones. These are the only resources which expand the reach of PDC's work beyond physical improvements and the URAs.

In the next 10 years, PDC is facing a dramatic decline in new TIF, jeopardizing its ability to promote widely shared prosperity and succeed in its mission to create growth and opportunity for Portland. As a result, PDC can only retain its leadership role by considering new ways to do business and fund our work.

Figure 1



PDC generates new TIF resources by issuing debt backed by projected growth in property tax revenues. As Figure 1 highlights, by 2022, the agency’s ability to issue debt on remaining urban renewal areas will be nearly extinct, with one remaining URA issuing its last debt in 2024. Recently created, smaller and more focused urban renewal districts have significant programmatic impacts on PDC’s future, but will only produce a fraction of the increment of the older, expiring areas. As a result, as shown in Figure 2, PDC is projected to deplete its resource base, at its current rate of expenditures, by 2030.²

While precipitous decline in TIF represents PDC’s most pressing financial challenge, the highly restrictive nature of TIF also poses challenges for PDC in fulfilling its mission. Tax increment can only be invested within defined geographic areas and physical projects, such as buildings and infrastructure. While these investments are critical to driving revitalization in distressed urban communities, they don’t address the full range of needs in a neighborhood. In addition, because TIF is tied to growth in assessed value, this funding model has the peculiar characteristic of generating the most revenue in areas of the city that are experiencing the most economic prosperity. Consequently, even with a stable flow of TIF over the next decade PDC would still be seeking to diversify its resources.

The challenges PDC faces as an organization over the next ten years are real and require more than simply the establishment of new URAs. Pursuing new TIF is, at best, inadequate for a number of additional reasons, including:

- High-assessed-value land, which generates the most tax increment, is within current urban renewal areas with unpaid long term debt;

² PDC can continue to spend the proceeds of TIF debt after the last date to issue debt in order to achieve the goals of the URA plan and the agency’s mission.

- The political climate for new or amended districts is challenging, both locally and statewide; and
- The long duration for meaningful property tax growth means that new districts won't materially change the resource picture for another 15-20 years.

2. History of displacement and gentrification

While PDC's accomplishments throughout its nearly 60-year history are extensive, the benefits of the agency's work have not always been widely shared, and in some cases the agency's work has been destructive to low income neighborhoods and communities of color. In particular, urban renewal inflicted forced displacement on Portland's African American community in the name of neighborhood revitalization.

Because TIF relies on making investments to generate increases in property taxes, this funding model's success can also make neighborhoods less affordable for the residents and businesses PDC is attempting to serve. In addition, a funding source tied to catalytic real estate development exacerbates the existing disparities in the development and construction industries by favoring those firms with the most experience and capital to undertake large scale projects, at the expense of smaller firms that could benefit from projects less focused on the Central City.

Hence this plan's proposed shift away from reliance on TIF is critical to improving PDC's effectiveness in Portland's most disadvantaged communities. PDC's successes in community economic development in recent years have relied less on TIF than its legacy projects and offer a model for how the agency can approach its work in a post-TIF era.

The Business Plan

In order for PDC to end its reliance on TIF as its primary funding, the agency must adopt a disciplined, diversified business model that marks its evolution as a leader in promoting widely shared prosperity. This plan offers a high level roadmap for the agency to develop new, recurring sources of revenue and manage its assets and investments in a manner that funds critical work for years to come. This new model will strike the necessary balance between advancing PDC's mission and generating sustainable revenues to fund the agency's work and preserving PDC's ability to remain a driving force of economic progress and equity across the city.

Through strategic use of assets, the ability to attract investment capital to the community, and a financial framework that moves beyond tax increment financing, PDC can provide access to a more versatile toolkit that addresses the true needs of Portland's neighborhoods.

The most pivotal internal transformation required by this business plan is the creation of a self-sustaining real estate unit within PDC to provide comprehensive management of all PDC real estate and redevelopment activities. This unit would be consolidation of PDC's existing Real Estate, Lending, Central City and Neighborhood teams. This consolidation is necessary to ensure that all real estate transactions

are managed according to a global strategy, and that decisions regarding transaction returns and structure are made in the context of the entire portfolio.

Operational Requirements of the Strategic Plan

1. A Shift in Strategic Priorities

PDC's strategic plan represents a fundamental shift in not only the organization's priorities but also the nature of its work. In order to meet the ambitious wealth, job creation and partnership goals of the plan, PDC must make profound changes in its management of projects and programs.

The plan calls for PDC to employ a new model, where the gains from physical and economic growth are intentionally focused to address growing gaps within our city and ensure that all communities reap economic benefits.

Job creation, placemaking, and economic opportunity must work together to achieve the goal of widely shared prosperity:

- Healthy, connected neighborhoods decrease the cost of access to employment and services for low-income people, while mixed-income communities increase the likelihood of intergenerational economic mobility, which is significantly reduced by growing up in neighborhoods with concentrated poverty;
- Continued place-making within the Central City and neighborhoods throughout Portland is crucial in developing, retaining, and attracting a talented workforce;
- A productive, innovation-based economy with connections to growing global markets i.) enables access to employment when coupled with intentional connections between underserved populations and quality jobs; ii.) supports the viability of local businesses and helps create wealth as income growth increases purchasing power; and iii.) increases the overall tax base, which provides more resources for essential public services; and
- Socio-economic diversity of business and property ownership leads to healthier neighborhoods as property and business ownership increase community stability, a higher performing business environment, and resilience throughout economic cycles.

Fulfilling these ambitious goals will require a significant increase in flexible funding for programs and staff.

2. Programmatic Expansion

As a redevelopment entity primarily funded by TIF, PDC has been staffed to deliver real estate projects and transactions. PDC's legacy funding structure has aligned with its primary business line: redevelopment.

Beginning in 2009 with the Portland Economic Development Strategy, and accentuated with the adoption of its 2015-20 Strategic Plan, PDC has seen an expansion of its non-redevelopment programs and initiatives and the resulting demand for non-TIF funding. PDC has also begun to play a

more explicit role in the capacity building of community organizations, enabling their leadership of programs and projects. Playing this role requires PDC to provide fixed operating support to local organizations rather than staff its own direct project management.

In particular, the income and wealth creation actions of the strategic plan necessitate an increased budget for programs to promote business ownership and growth as well as property ownership and support for emerging developers.

The plan also commits PDC to partner with public and private entities throughout the region to address Portland's most pressing challenges, including affordable housing, workforce development and infrastructure development.

Proper implementation of the PDC Strategic Plan will result in expansions of activities and, potentially, staff in the following programmatic areas:

- Inclusive business development and entrepreneurship – PDC's traditional economic development programs have pivoted in recent years to focus on entrepreneurs of color and other individuals and businesses disconnected from the mainstream economy. This shift has been effective in jumpstarting increased awareness and activity within these sectors and will require sustained effort to become imbedded in the local economy.
- Neighborhood business development programs, including the INCREASE Project and targeted commercial tenanting in PDC or City-controlled space – As with PDC's traditional economic development programs, the agency's neighborhood economic programs continue to evolve to generate the most impact for small business owners. Intensive interventions in the most promising small businesses and commercial retail space to maintain affordability will be priorities for the agency.
- Targeted small developer and property owner programs – PDC's unsuccessful efforts at creating development opportunities for longtime neighborhood property owners have revealed that greater programmatic support must be provided not only to property owners but also to emerging developers who would have the capacity to realize the development potential of neighborhood properties.
- Strengthen institutional capacity of neighborhood partners, including NPIs and legacy community organizations – Reliable institutional capacity in neighborhood partners is vital to community economic development, as demonstrated by the increasing effectiveness of the NPIs only four years into their existence. PDC will continue to invest in capacity building for NPIs and legacy community organizations, as well as work to build the institutional capacity of organizations within traditional URAs to allow for the community-led work in those neighborhoods.
- Catalytic projects in both Central City and neighborhoods that are of significance to City or partners but do not require PDC capital investment – Despite PDC's lack of investment in catalytic projects, the agency's involvement is still critical in order to represent the City's interests and facilitate the interactions of private partners with the City. In addition, PDC may play a role in capital formation for public or private development partners.

3. Evolution of Real Estate Business

PDC has undergone an evolutionary shift in its strategic priorities, and this shift is reflected in the character and scale of its real estate and redevelopment activities. With declining TIF and a focus on projects that benefit those most disconnected from the current economy, PDC has an opportunity to reinvent itself and its services with a business plan that identifies new practices and revenue sources. Portland has changed, and so has its real estate market. PDC’s strategic plan calls for moving beyond the historical model of intensive redevelopment activities.

PDC real estate projects must have more intentionally defined benefits and produce these outcomes with proportionally smaller investments than in the past. However, given the opportunities presented by a robust real estate market to transform parts of the city, the central role of real estate in wealth creation in the U.S., and PDC’s significant legacy investments in real estate, PDC must continue to be an active player in the Portland commercial real estate market. This imperative offers the greatest opportunity for the agency to address wealth gaps within the city, facilitate development, including the development of publicly-owned parking, that maintains long-term residential and commercial real estate affordability, and provide revenue growth for the agency.

Within this context, PDC will need to explore new models of real estate development to assist in the growth of emerging developers of color, particularly entities run by women, as well as to unlock the value in real estate for long-term property owners. Given PDC’s own impending capital constraints and the needs of its stakeholders, small scale rehabilitation projects and infill development will likely be effective projects for partnering with small developers. Lastly, PDC’s real estate strategy should involve work with the agency’s community partners on projects of significance to neighborhoods, including the use of community land trusts for the purpose of advancing community real estate projects with many stakeholders.

4. Staffing assumptions

The programmatic expansion description above will result in a gradual shift in staffing to focus on programs and transactions rather than projects. This transition will occur in the midst of an overall reduction of PDC staff as a result of the decline in TIF resources. The table below summarizes the projected change in staffing over the next five years.

Table 1
Projected Change in Staffing

	FY 2016-17	FY 2020-21	FY 2025-26
Admin/Operations	30	24	22
Program	20	23	25
Project	35	30	25
Total	85	77	72

The implications of this change in the nature of PDC’s staffing structure is that the agency must grow its pool of flexible, non-TIF operating funds in order to pay for the costs of increased staff working on a range of disparate program and initiatives.

Despite the reduction and redistribution of staff, annual personnel cost increases due to salaries, health care and PERS increases will fuel budget growth for the agency and will continue to crowd out expenditures on programs and projects, underlining the urgent need for a revenue plan that not only makes operations self-sustaining allows for growth in the agency’s programs.

5. Grant Funding

PDC should maintain the capacity to provide grant funding to meet the priorities of the strategic plan. However, unlike current grantmaking activities, which are driven primarily by demand and availability of TIF within particular URAs, PDC will need to transition to a global grant budget that limits the amount of funding that the organization provides without any expectation of return – marking the agency’s further evolution from its historical model.

Below is a summary of PDC’s current grantmaking activity. In order to maximize the return on investment from remaining and fund grant activity from a sustainable non-TIF budget, the agency should seek a significant reduction in this activity within the next five years. Such a reduction could approximate nearly 50% of PDC’s current grant budget.

Table 2
Projected Decline in Grantmaking

	FY 2016-17	FY 2020-21	FY 2025-26
BIG	\$2,675,000	\$1,000,000	\$750,000
CLG	\$1,800,000	\$1,000,000	\$750,000
Total	\$4,875,000	\$2,000,000	\$1,500,000

5. Projected Loan Activity

In recent years, PDC has provided the majority of its financial assistance through either business or commercial real estate loans. These loans achieve a range of outcomes, from funding business expansions to small scale real estate projects to providing gap financing on catalytic redevelopment project. As Table 3 highlights below, the primary driver of PDC’s loan volume in recent years has been the increasingly active real estate market.

PDC’s loans are funded either directly from TIF across many URAs or from non-TIF funded loan funds that depend on repayment of loans to fund future transactions. The decline in TIF will dramatically reduce the funding available for loans and transition all loan activity towards a loan fund model. Like any operator of loan funds, PDC will need to adhere to consistent standards for its loan activity to ensure a return of capital with some cost recovery.

This heightened need for financial discipline happens at a time when PDC's strategic plan calls for the agency to expand its tools to facilitate wealth creation opportunities for business owners and developers of color. While these objectives may seem incompatible, many models exist, including the national network of Community Development Financial Institutions (CDFIs), where loan funds with social missions operate in a sustainable fashion. Socially responsible loan funds exist not to provide free money but to fill a capital gap for creditworthy borrowers denied access to credit.

The challenge for PDC, in addition to changing expectations regarding its loan terms, will be accessing capital to fund any expansion of its non-TIF loan funds. Loan funds expand through a combination of profitable operations and accessing debt to fund new loans. PDC has limited experience in this realm and will therefore be constrained in growing its loan operation in the short term. Long term, the agency should consider establishing a CDFI to create the infrastructure for a more substantial loan program and to access additional capital.

6. PDC's role in future infrastructure investments

PDC has historically played a significant role in funding infrastructure in urban renewal areas, particularly in concert with catalytic development projects. These investments have included streetscapes, sidewalks, fixed rail, and parks and open space. In addition, PDC has funded the indirect costs of other city bureaus that manage these infrastructure projects, while providing staffing assistance as well.

While PDC's declining resource base will limit and possibly end PDC's role in funding City infrastructure projects, publicly-funded infrastructure will continue to play a role in attracting catalytic development throughout the city. PDC can continue to add value to these infrastructure projects through project management and inter-bureau coordination. PDC should bill its time functioning in this role to the bureaus managing infrastructure projects.

In addition, PDC can add value to bureau partners by helping to identify funding sources, including helping establish local improvement districts (LIDs) and business improvement districts (BIDs), and applying for public grant funding (e.g. federal TIGER grants).

7. Public Benefits and Outcomes

PDC's Strategic Plan established a range of metrics to measure the agency's progress in meeting the plans of the goal. Ultimately, the success of this business plan should be measured by the same standard. Establishing a secure, sustainable funding base must be in service to the goals of the Strategic Plan.

This business plan anticipates achieving the following investment outcomes as a result of the additional resources acquired:

Table 3
Projected Investment Impacts
FY 16-17 through FY 30-31

New Small Business Loans	158
Business Loan Volume	23,000,000
New Commercial RE Loans	50
Commercial RE Loan Volume	105,000,000
Projected Leverage on Loans	600,000,000
PDC Construction Spending	193,000,000
New Enterprise Zone Investment	3,382,000,000
Construction Jobs	28,000
Permanent Jobs Created or Retained	17,000
Small Businesses Assisted	5,600

50% DRAFT

Proposed New Revenue Model

1. Best Practice Review

In September 2015, PDC convened a Financial Sustainability Committee comprising stakeholders and experts in the funding mechanisms for PDC and local governments. In addition, PDC contracted with a national economic development consulting firm, HR&A Advisors, to conduct a best practices survey of similar organizations throughout the U.S. to make recommendations to the committee as to potential long-term funding scenarios for the agency.

One of the most striking findings of this research is PDC's unique dependence on public funding among its peer organizations around the U.S. As the table below highlights, PDC peers rely on a more diverse revenue stream and are successful in attracting reliable resources from sources other than local public dollars.

Table 4
Comparison of U.S. Economic Development Agencies

ENTITY	Operating Budget	% Local Public Resources	% Other Resources
Boston Redevelopment Authority	\$50M	40%	60%
Invest Atlanta	\$8M	16%	84%
NYC Economic Development Corporation	\$240M	0%	100%
Philadelphia Industrial Development Corporation	\$10M	25%	75%
Civic San Diego	\$7M	25%	30%
Chicago Dept. of Planning & Dev.*	\$31M	15%	85%
PDC	\$30.5M	89%	11%

The committee put forward the following recommendations for structuring a new long-term business plan for the agency:

- Maximize both the public benefits and financial return of the remaining TIF funds available to the agency prior to end of each of the existing URAs.
- Plan for the conversion of TIF-funded assets to unrestricted funds at the end of life for existing URAs.
- Use the agency's most valuable asset, its real estate portfolio, as the basis for creating a long-term revenue stream for the agency.
- Pursue additional real estate development activities, including the acquisition and development of properties and the redevelopment of other publicly-owned properties, to provide financial return to the agency.
- Continue to use new TIF districts in a limited, project-specific manner to provide ongoing capital funding to catalytic public and private projects.

- Identify an additional public funding stream to partially offset the loss of TIF, and focus on the impending “boomerang” revenue stream to the City of Portland to offset this new funding.
- Seek to maximize fee revenue to the agency from activities in which the agency currently engages without sufficient compensation.

2. New Revenue Model Components

Based on these recommendations, PDC proposes a new revenue model for the agency to be implemented over the next ten years to coincide with the decline in TIF resources. Each of these new revenue components is described more fully in the following sections.

Maximize Public Benefit and Financial Return from Remaining TIF

PDC has roughly \$500 million in TIF to invest over the remaining 10 years of existing URAs. How these funds are invested can have a profound impact on the financial future of PDC. Historically, the expectation has been that PDC invests TIF without requiring a return on those funds or, in many cases, even a return of the amount invested (i.e.; TIF should be invested as a grant). This expectation is largely based on the outdated notion that achieving a public benefit and generating a financial return are incompatible objectives. As a result, this way of operating defined how PDC’s investments were structured and how public-private partnerships operated in the City of Portland.

In recent years, new models of investment³ have emerged which have explored marrying the objectives of social impact and financial return to attract new forms of capital to organizations trying to address the most pressing social issues of our time. PDC has the opportunity to benefit from this evolution in thinking by adopting an impact investment model for putting its remaining TIF to work in Portland communities.

Under this model, the remaining TIF would be invested according to the following principles:

- Project investments should result in asset ownership or seek return of capital to PDC;
- PDC should establish leverage targets on all investments that seek to maximize the percentage of non-TIF resources in projects;
- All project investments should seek public benefits without a trade-off in ownership or return to PDC;
- PDC should establish and adhere to an annual budget for all grants based on a fixed percentage of remaining TIF; and
- PDC should explicitly end the practice of forgiving loans. If loans are meant to be grants, they should be made from the budget established for grants.

³ The Global Impact Investment Network (<https://thegiin.org/impact-investing/>) defines the core characteristics of impact investing as

- Intentionality
- Investment with return expectations
- Range of return expectations and asset classes
- Impact measurement

Plan for the conversion of TIF Assets to Unrestricted Funds

PDC currently operates under the interpretation that TIF-funded assets, which include real estate and loans, remain TIF even after these properties are sold or loans are repaid. This interpretation currently prevents the agency from using these funds, which have already been invested in service to a specific URA, to address a pressing need elsewhere in the city or non-redevelopment-related need within the same URA.

The logic of restricting the use of earnings to the same constraints as the original investment is particularly compelling as long as debt issued by the City of Portland for urban renewal remains outstanding. However, forecasts indicate that PDC will be in possession of various assets across each of its existing URAs after public debt is repaid, and these assets constitute a ready source of capital that can be redeployed by the agency to achieve its strategic objectives. This plan, therefore, presumes that PDC will be able to use the income and capital that is returned from these assets after the public debt on a district is repaid as unrestricted funds for activities consistent with its strategic plan.

In addition, PDC should continue the use of interfund loans to accelerate the conversion of TIF assets to unrestricted funding. Interfund loans allow PDC to acquire assets in non-URA funds by borrowing and repaying funds from a URA. This practice allows the PDC Board to establish the intent of purchasing an asset for long-term public benefit and financial return to the agency as opposed to making a permanent investment in a particular URA. PDC finances the acquisition of assets by third parties that merely need to repay outstanding debt to PDC to free the asset of its TIF restrictions. This practice extends the same benefit to the agency itself, and allows the agency the opportunity to access TIF resources that will eventually be unrestricted in a timeframe to address the city's more currently pressing needs.

Use PDC's Real Estate Portfolio to Generate Long-Term Return

In order to effectively balance the agency's mission of providing public benefit to Portland taxpayers and provide a regular return to the agency, PDC must manage its real estate operations according to the principles of an impact investment fund. As highlighted earlier, an impact investment fund seeks to achieve both social impact and financial return through a singular investment strategy. For PDC to make the transition to this model, it should establish its own investment strategy that incorporates the following elements:

- An overall portfolio return target for all real estate holdings and investments that accounts for the return on all projects, not simply the projects with positive returns.
- Investment plans for each property in the portfolio, as well as potential acquisitions, that highlight a path to expanded public benefit and long-term financial return to the agency.
- Return targets for each project or investment that allow for variability in return for each investment based on project type and market conditions.
- Updated disposition criteria that reflect the goal of long-term resource generation for the agency.
- A plan for achieving self-sufficient operations; i.e., the real estate operation should cover its own costs and contribute to the annual operating costs of the organization as well.

- Updated deal structure principles that incorporate inconsistently used tools such as ground leases that allow PDC to retain ownership of real estate assets, as well as profit sharing tools to allow for a more balanced distribution of profits between PDC and its private partners.
- A plan for PDC to operate as a developer or owner on select projects on either PDC-owned real estate or other publicly-owned real estate.

Pursue Other Real Estate Development Activities

Development of select City projects and strategic intervention in publicly-owned parking represent two key real estate opportunities for PDC that are consistent with both its history and current mission.

Public agencies operating within Portland, including the City of Portland, Multnomah County, TriMet, PPS and Metro, own parcels of unutilized or underutilized real estate. In many cases, these parcels have a specific purpose or a restricted use related to their public owner (e.g., public rights of way, utility access sites). However, a limited number of publicly-owned properties have untapped development potential that could benefit the public and provide a financial return to the public owner. As the City's development agency, PDC is uniquely positioned to lead the redevelopment of these properties.

The development and ownership of public parking structures is another real estate-related opportunity for PDC. The draft Comprehensive Plan for the City of Portland forecasts significant new commercial and residential real estate development over the next 30 years due to projected population and job growth. Without public intervention, that development will produce a new supply of private parking. Even assuming declining demand for parking, this new supply will increase the cost of development, reduce affordability for residents and small businesses, and perpetuate the current model of underused, privately owned parking.

By intervening at this growth stage for the city, PDC can transition the parking supply from private to public ownership incrementally, increase the use of the city's parking supply and ultimately assist in the overall reduction of parking supply in the city. Through control of an increasing percentage of the city's parking assets, PDC and the City can exert more control over pricing and discourage auto use in congested areas of the city. In addition, by strategically building publicly-owned parking, PDC can lower the costs of development in areas of the city where housing and commercial affordability remain critical needs.

This plan assumes that PDC would participate in the development of up to five publicly-owned parking structures in the Central City over the next decade, creating a portfolio of seven parking facilities with nearly 2,500 spaces.⁴ These structures would be located in districts that are currently served primarily by surface parking lots that are attractive development sites. These new parking structures would facilitate new development by replacing surface parking and freeing new development of the need to incorporate parking into a project. The intent is not to replace parking on a 1:1 basis but rather build sufficient supply to maximize development in the area.

⁴ PDC currently owns the Station Place parking structure in the Pearl District and the Riverplace Garage, and manages over 500 existing parking spaces.

High-opportunity districts where structured parking will facilitate new commercial development and needed density include:

- Convention Center/Rose Quarter
- Old Town Chinatown/Skidmore
- River District/Union Station
- Central Eastside

Targeted Use of New TIF Districts

Tax increment financing districts remain a commonly used tool around the U.S. to invest in catalytic public and private redevelopment projects. Unlike the model used in Portland, however, TIF districts in other parts of the country are typically used to fund the public investment in individual projects rather than long-term neighborhood plans. The City will need to identify replacement sources of funding for the range of infrastructure projects that have been historically funded by PDC; but for large scale redevelopment projects with potential to generate significant new tax revenue for the City, TIF and variations of TIF that rely only on revenues to the City of Portland remain effective and appropriate tools.

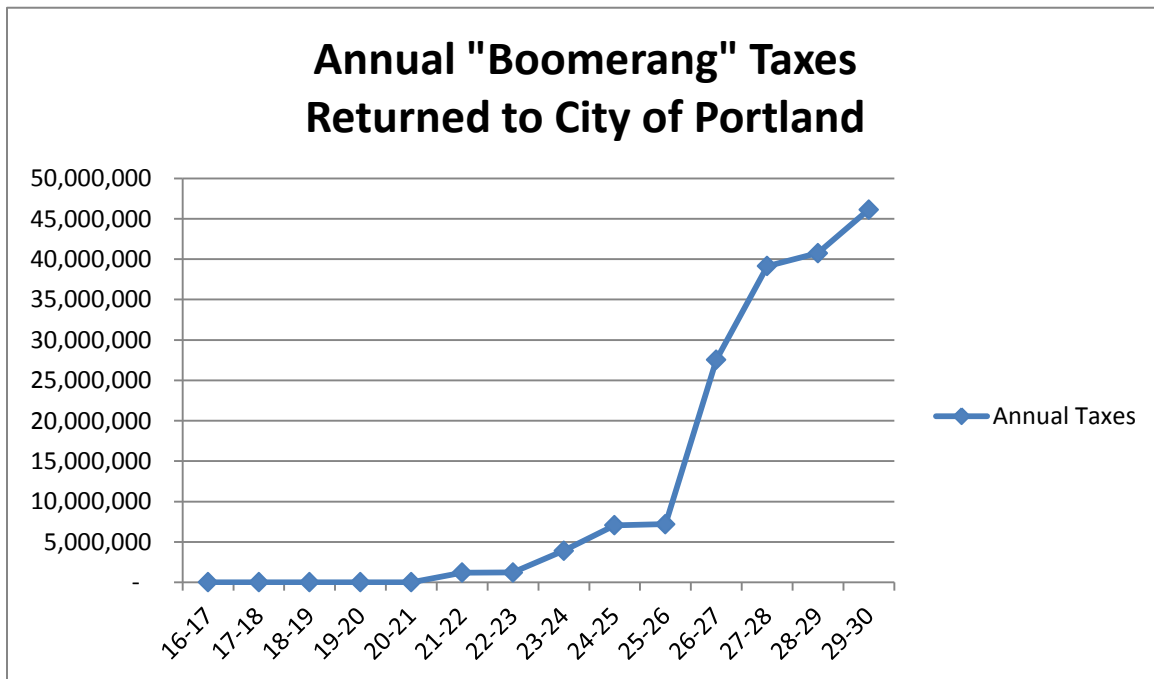
In the future, PDC should seek to catalyze private developments with upside to the City through the investment of TIF. To ensure that these districts are created with the proper incentives in place, PDC should no longer incur the costs of establishing new districts, and instead pass this cost on to the private investors seeking to benefit from public involvement. PDC could still operate on behalf of the City and negotiate long-term development agreements with private parties, but these agreements would include the costs of establishing and managing a district on behalf of a private project, and seek the appropriate expansion of public benefits in return.

In addition, PDC should operate as a project manager and no longer intertwine its operations with that of future districts. This practice allowed PDC's overhead to grow significantly in the past and led to the significant subsequent reductions in staff and overhead. Instead, PDC should recoup the costs of its time and expenses in managing and staffing these districts but allow the public investments and debt to remain on the balance sheet of the City.

Identify New Public Funding Offset by "Boomerang" Funds

The expiration of TIF districts and repayment of outstanding bonds will return increasingly significant property tax revenues to the City of Portland. As Figure 2 below highlights, the annual taxes to the City will be roughly \$7 million by FY 24-25, and will grow to more than \$45 million in FY 29-30.

Figure 2



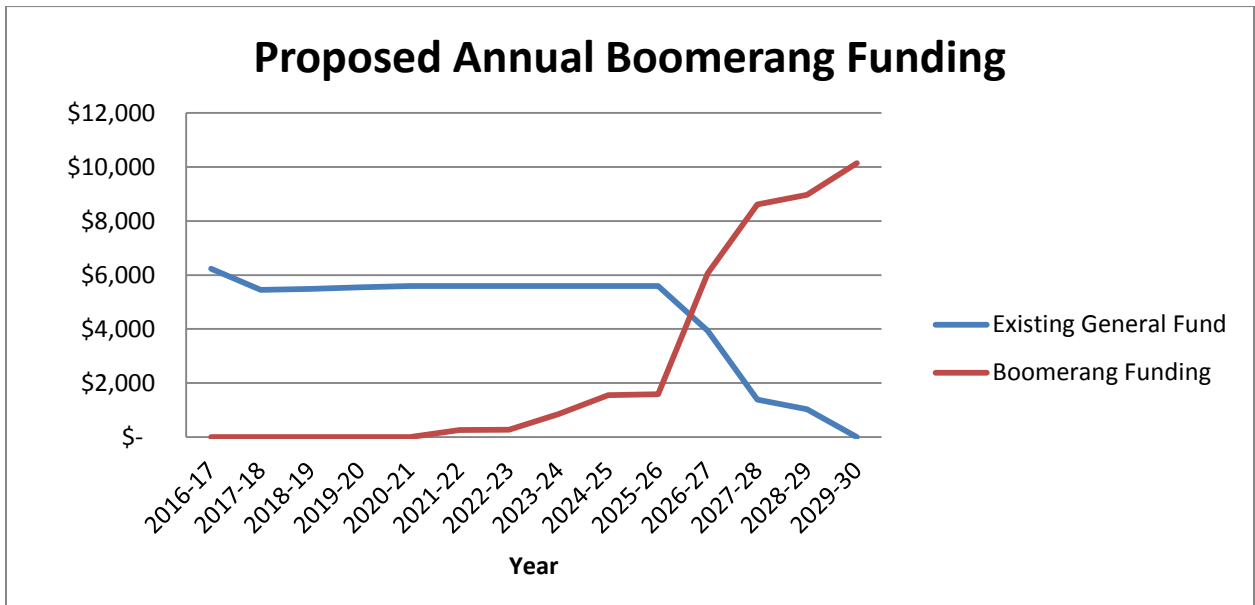
These increasing property tax revenues represent the fulfillment of the promise of urban renewal and are not currently included in budget forecasts for the City. These future revenues offer the unique opportunity to increase City support for PDC without decreasing support for other City bureaus.⁵

Given the vagaries of the annual appropriation process, and the opportunity to tie PDC support to a funding stream that reflects the performance of the economy, City Council should consider committing a portion of these recurring revenues to PDC.

As an example, City Council recently committed to using taxes generated from AirBnB revenues to fund Portland Housing Bureau (PHB) programs. Under such a scenario, City Council could tie PDC’s ongoing General Fund appropriation to the performance of this revenue stream. As highlighted in Figure 3 below, a target of 25% of the “boomerang” funds could result in annual funding to PDC of at least \$10 million, provide the type of regular programmatic support needed to fund PDC’s ongoing program work, and, by 2029, eliminate the need for annual General Fund appropriation to PDC.

⁵ The cities of Los Angeles, San Francisco and Chicago are making use of “boomeranged” funds to pay for a range of community development activities. Los Angeles has received nearly \$619 million in new revenues since the dissolution of redevelopment in 2011, and is using a portion of these funds to capitalize the City’s Community Development Commission. The City aims to provide up to \$15 million annually to the Commission by FY 2020-21.

Figure 3



Program Revenues

Enterprise Zone - PDC generates in excess of \$600,000 each year in fees and payments from Enterprise Zone participants, including payments into the Workforce Training and Business Development Funds. After netting out workforce funds passed through to Worksystems Inc., PDC retains approximately 50% or \$300,000 of those funds each year. While much of this funding is restricted, the allowed uses match the priority activities of the strategic plan, including neighborhood small business development, and therefore represent a reliable revenue stream for specific PDC programs.

Fees for Service – PDC has the opportunity to increase fee income across a range of program areas in which it adds value to stakeholders who would otherwise purchase these services in the open market. These opportunities include receiving a percentage of new international business obtained by companies assisted through PDC trade missions, sharing in permit fees obtained through facilitation of projects and fee-generating activities (e.g., Portland Film Office), and fee-based project management services offered to both public and private partners. While these fees will not represent a significant percentage of PDC revenues in the future, they will defray some of the agency’s overhead costs and allow PDC to continue offering these services.

Greater membership contribution - In other markets (e.g., World Business Chicago), the cost of operating economic development programs, such as programs that promote entrepreneurship or collaborative activities among businesses in the same industrial sector, are shared between private and public sector. With some notable exceptions, in Portland these costs have been largely borne by PDC in an effort to encourage participation. In the future, PDC should test the willingness of private

sector partners to help underwrite the cost of these programs, including staff time, to validate demand for these services and ensure that PDC’s subsidy dollars are focused on those most in need.

2. Overview of New Operating Revenue Model

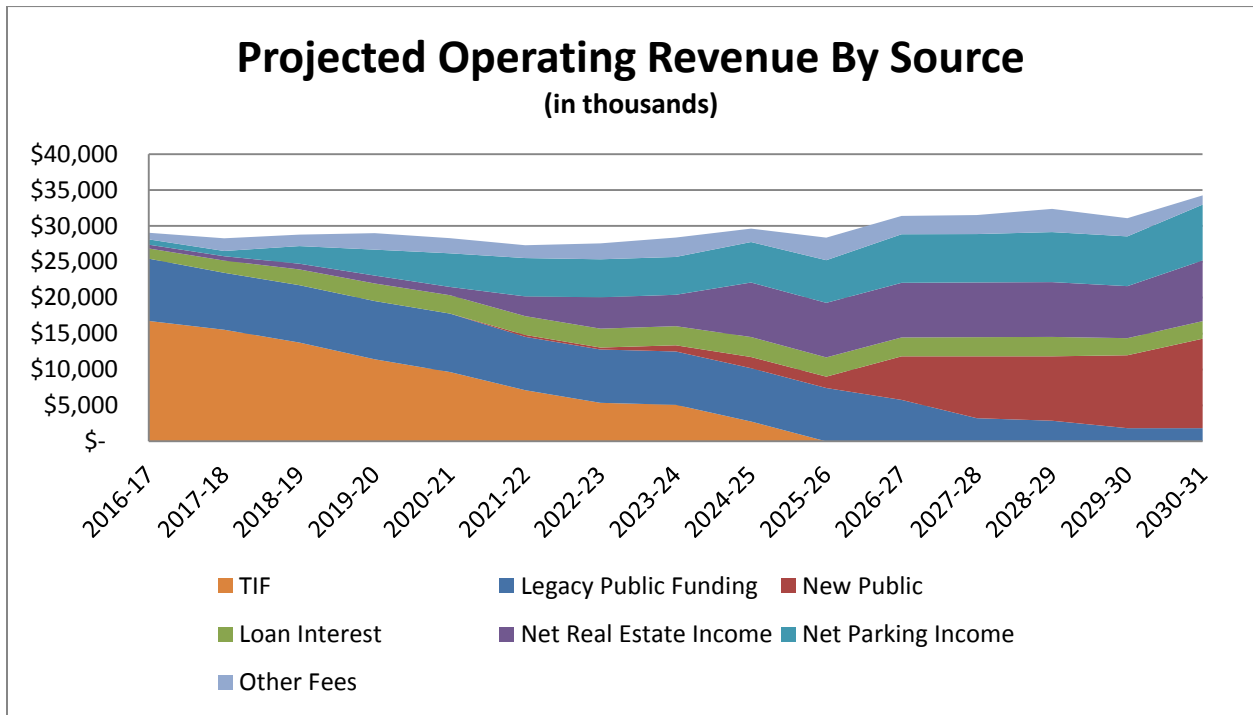
In combination, these resource opportunities offer the potential to create a new self-sustaining revenue model that transitions PDC from reliance on TIF as a source of operating funding over the next decade. Table 4 provides an overview of a projected new revenue model for PDC. Over the 14 years of this plan, PDC’s reliance on TIF as a source of operating revenue declines from 57% of all support to 0%, and operating revenues from assets, including real estate, parking and loans, grow from 9% to 53%.

In addition, the replacement of PDC’s annual general fund appropriation with a fixed percentage of “boomerang” funds flowing back to the City provides 35% of operating support by FY 2030-31. Finally, this proposed funding mix has the potential to reverse the revenue trend for the agency and provide new resources near the end of the plan to add programs and, potentially, staff.

Table 4
Projected Revenue Sources

Revenue Source (in ‘000s)	FY 16-17	FY 20-21	FY25-26	FY 30-31
TIF	16,763	9,653	1,190	0
Net Real Estate	527	1,149	7,599	8,451
Net Parking	738	4,682	5,936	7,774
Net Loan Income	1,422	2,561	2,677	2,447
Legacy Public Funding	8,669	8,136	7,427	1,839
New Public Funding	0	0	1,585	12,453
Other Fees & Revenues	921	2,107	3,141	1,286
TOTAL	29,040	28,288	29,555	34,250

Figure 4



3. New Project Capital Sources

The new revenue model described above largely addresses PDC’s need to establish self-sustaining operations. Addressing that need represents only part of PDC’s funding challenge. Throughout PDC’s existence, TIF has been a primary capital source for public and private projects throughout the city.

In fact, over the past ten years, PDC has invested in excess of \$500 million in projects as capital. These funds were used in lieu of other sources of private and public capital and often closed funding gaps on projects that may not have been completed without TIF.

While PDC is likely to be able to establish a sustainable funding model to pay the operating costs of the organization, finding alternative funding sources to replace TIF as a capital investment tool at its historical levels will be more challenging.

As PDC’s current TIF resources become increasingly depleted, PDC must become more adept at structuring public-private transactions that rely on multiple sources of outside capital and leverage PDC’s investment, if any, more effectively than in the agency’s past.

These new capital sources are likely to include the following:

- **Private Debt** – Like any other developer or CDC, PDC will need to access private debt financing for a significant percentage of its capital needs. PDC has avoided this in the past given both the availability of ample TIF and restrictions on the agency’s ability to borrow privately.

- Property Assessed programs (CPACE/PropertyFit) – PDC is currently establishing a CPACE program, branded as PropertyFit, to provide capital to commercial energy efficiency projects. While PropertyFit will initially use TIF to capitalize the program, the program is designed to attract private capital to transactions that would not normally meet traditional credit standards.
- New Market Tax Credits (NMTCs) – PDC should establish a Community Development Entity (CDE) for the purpose of accessing NMTC allocations that can be used as capital for PDC projects. While the Portland market currently has existing CDEs that receive regular allocations, none of these entities is focused exclusively on the Portland market. A PDC-sponsored CDE would have the benefit of an early window into the PDC project pipeline.
- Community Development Financial Institution (CDFI) – PDC should evaluate the benefits of establishing a CDFI to house its loan and NMTC programs. While neither is of a scale in the near term to warrant such an effort, over time, a CDFI would assist in the scaling of these programs by providing a structure for accessing outside capital and achieving self-sustaining lending operations.
- Local and National Foundations – Foundations have always been a critical source of funding for community projects and programs. In recent years, the foundation community has begun to view its entire investment portfolio as having a role in fulfilling program objectives. This shift has opened up community real estate projects and entrepreneurship programs to foundation funds as a source of capital.
- Local Improvement Districts (LID)/Business Improvement Districts (BID) – As previously highlighted, as PDC ceases to offer funding for infrastructure projects, LIDs and BIDs could serve as alternative funding sources.
- Crowdfunding – The increasing democratization of access to capital may be a well-timed solution to the decline of TIF as a reliable source of gap capital. New tools are emerging to create direct access for small real estate projects and growing businesses. While crowdfunding is no longer a new tool, recently implemented SEC regulations greatly expand the capabilities of existing crowdfunding platforms and, in particular, deepen the pool of equity capital available outside of institutional sources.

As noted by the above examples, not all new capital sources will provide resources under PDC control or ownership. The decline in TIF will require not just new capital sources to complete projects but also an enhanced role for other organizations and capital providers to help community partners complete their projects.

Implications for Organizational Structure and Governance

1. Statutory Framework

PDC activities are regulated at both the state and local level. PDC's urban renewal activities are governed by ORS 457, which creates the framework for establishing urban renewal districts and the expenditure of tax increment funds. From an organizational perspective, PDC is established by City Council charter, which allows the agency to engage in a wide range of activities in support of its mission. As PDC transitions to a post-TIF era, the flexibility of this charter becomes more significant, and facilitates the pursuit of a new business model without any fundamental changes to its organizational structure.

2. New Corporate Entities

As with other public agencies in the State of Oregon, PDC is subject to the constitutional restriction on owning securities in a private company. To address this restriction, in 2013 PDC established Portland Economic Investment Corporation (PEIC), an affiliated not-for-profit organization, to allow the organization to retain limited partner interests in the Portland Seed Fund. PEIC, which is governed by a three-person board, operates independently of PDC but has a mission similar to PDC's and is supported by grants from PDC. PDC should expand the use of this entity to facilitate future PDC activities that require the ownership of private securities or interests in real estate partnerships, but only when ownership on PDC's balance sheet is not allowed by law or when loans are not the appropriate structure for PDC's investment.

As previously highlighted, PDC may pursue the establishment of additional entities, such as a CDE for the purpose of attracting New Market Tax Credit allocations, or a more comprehensive CDFI to serve as a CDE and a loan fund. Each of these entities could be established as component units of PDC or independent affiliates. In the latter case, these new entities would likely be formally affiliated with PEIC to maintain the same governance over all affiliated entities.

3. New Impact Investment Real Estate Team

A self-sustaining real estate unit within PDC, consolidating existing Real Estate, Lending, Central City and Neighborhood teams, will provide comprehensive management of all PDC real estate and redevelopment activities. Under this structure, PDC could still make a range of real estate investments to meet community needs; however, each investment or transaction would need to contribute to or be offset by the agency's overall portfolio return.

This consolidation creates a common culture for all real estate activities and will prevent narrowly defined project objectives from either undermining PDC's public mission or diminishing the value of an asset critical to PDC's financial health. Unlike PDC's previous development function, the defining value of this newly consolidated team must be the impact investment philosophy – the simultaneous pursuit of both public benefit and investment return.

Financial Metrics

1. Projected Income Statement

The proposed new revenue mix for the agency offers the opportunity for sustainable growth to eliminate the agency's operating deficit and eventually fund an expansion of the agency's activities. As the summary income statement in Table 6 highlights, the business plan assumes that PDC remains an organization of similar size and capacity over much of the plan. Given inflationary pressures on personnel and other fixed costs, this assumption results in an increasing percentage of the PDC budget devoted to personnel costs, without a significant increase in staff capacity.

As previously highlighted, however, as PDC continues its shift in operations as a result of its strategic plan, its work will be more staff intensive, justifying a growing budget allocation to personnel.

The other assumption driving PDC's operating budget is the shifting of program resources toward capacity building and workforce and away from traditional business development and assistance. This change is responsive to the growing need to establish connections between organic job growth and those most disconnected from the regional economy.

Table 6
Projected Income Statement

(in '000s)	FY 16-17	FY 20-21	FY25-26	FY 30-31
Revenues				
TIF	16,763	9,653	1,190	0
Public Funding	8,669	8,136	9,012	14,292
Net RE/Parking	1,265	5,831	13,535	16,225
Net Loan Income	1,422	2,561	2,677	2,447
Other Income	921	2,107	3,141	1,286
Total Revenues	29,040	28,288	29,555	34,250
Expenses				
Programs				
Traded Sector	1,198	1,100	1,020	1,020
Small Business	1,344	1,280	1,235	1,235
Workforce	3,618	3,259	4,820	5,066
Capacity Building	1,495	1,625	2,618	4,216
Total Programs	7,656	7,264	9,693	11,537
Grants	4,875	3,575	1,500	1,500
Personnel	12,363	13,758	14,288	17,342
Administration	4,147	3,691	4,075	4,499
Total Expenses	29,040	28,288	29,555	34,879
Surplus/(Deficit)	0	0	0	(629)

One major shift in PDC's financial condition as a result of this plan is the development of a more robust balance sheet (Table 7). As a result of the agency's real estate and structured parking development activities, which are summarized in Tables 8 and 9, PDC's asset base grows significantly. This asset growth is fueled by the agency's use of debt to retain ownership of a select portfolio of commercial real estate and structured parking projects.

The projected balance sheet also highlights the agency's positive cash position throughout the plan. PDC benefits from significant TIF-funded cash reserves and assets at the start of the plan and the combination of strategic investments and dispositions that replenish PDC's cash position throughout the plan. According to projections, the reduction in assets as a result of dispositions is offset by investments that generate a positive, ongoing return. In addition, steady growth in positive cash flow from both structured parking and lending activities adds to the agency's cash position.

Table 7
Projected Balance Sheet

	FY 16-17	FY 20-21	FY 25-26	FY 30-31
Assets				
Cash	\$106,462	\$78,177	\$80,903	\$43,124
Loans Receivable				
Existing	52,479	37,349	20,783	9,540
Loan Loss Reserve	(15,744)	(11,205)	(6,235)	(2,862)
New				
Commercial	16,985	53,925	64,740	73,557
Business	2,852	7,966	8,199	8,307
Loan Loss Reserve	(3,967)	(12,378)	(14,588)	(16,373)
Real Estate				
Parking	-	50,079	106,157	106,157
Commercial	125,072	140,301	188,864	258,969
Total Assets	284,138	344,213	448,823	480,419
Liabilities				
Parking Garage Debt	-	8,538	36,420	30,928
Commercial Development Debt	-	41,344	34,604	87,778
Total Liabilities	-	49,881	71,024	118,706
Net Assets	\$284,138	\$295,239	\$377,798	\$361,713

Table 8
Summary of Projected Real Estate Portfolio

Real Estate Category	FY 2016-17	FY 2020-21	FY 2025-26	FY 2030/31
Cumulative Dispositions	5	7	8	8
Cumulative Sales	13,126,237	13,433,237	56,533,237	56,533,237
Existing Properties Retained	9	9	9	10
Annual NOI	507,577	549,418	606,602	669,737
Properties to Develop	0	8	16	20
Annual Return	0	4,154,876	10,776,575	17,099,189

Table 9
Summary of Projected Parking Portfolio
(in '000s)

	FY 16-17	FY 20-21	FY25-26	FY 30-31
# of Garages	2	4	7	7
# of Stalls	511	1,729	2,449	2,449
Total Debt	0	8,538	36,420	30,928
Annual Revenue/Stall	2,057	4,174	4,290	5,130
NOI b/4 Debt Service	738	5,243	7,947	9,785
Net Cash Flow	738	4,682	5,936	7,774

50% DRAFT

Implementation Timeline

	FY 16-17				FY 17-18				FY 18-19	FY 19-20	FY 20-21
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Plan Adoption											
Business plan presented to PDC Board	■										
Adoption of Updated Investment Policy	■										
Outreach to City Council & Mayor elect	■										
Community Outreach and Input		■	■								
Formal Adoption by City Council & Board				■							
Organization Changes											
Update to Relevant Program Policies		■	■	■							
Internal consolidation of real estate and redevelopment functions				■							
Establish CDE				■							
Explore Creation of CDFI								■			
New Revenue/Investment Opportunities											
Council Action on New Boomerang Funding									■		
New Real Estate Development									■	■	■
Development of New Garages					■	■	■	■	■	■	■

Conclusion

PDC is embarking on a significant shift in direction, with far-reaching aspirations and outcomes as identified in the 2015-20 Strategic Plan. The agency has a unique role to play in Portland’s future growth, but its practices and funding must evolve in alignment with its new strategic objectives. The business plan has been developed in service to that strategic transformation, describing a funding framework that supports change over the next decade and beyond.

The business plan lays out a new philosophy for revenue creation and preservation, one that addresses PDC’s need for self-sustaining operations and identifies alternative funding sources to TIF to ultimately grow PDC’s asset base, replenish its cash position, and generate a positive, ongoing return.

PDC faces real challenges over the next ten years. With an era of transformative growth on the horizon, the components of the business plan better position PDC to implement its strategic plan and serve the city as it has done for more than half a century.

50% DRAFT

Portland Development Commission
Balance Sheet

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Assets															
Cash	\$ 106,462	\$ 62,937	\$ 43,382	\$ 49,739	\$ 78,177	\$ 83,688	\$ 57,500	\$ 44,527	\$ 99,357	\$ 80,903	\$ 56,494	\$ 52,463	\$ 50,261	\$ 45,681	\$ 43,124
Loans Receivable															
Existing	52,479	50,670	42,685	39,482	37,349	36,198	34,837	33,994	28,627	20,783	20,084	19,396	10,371	9,963	9,540
Loan Loss Reserve	(15,744)	(15,201)	(12,805)	(11,845)	(11,205)	(10,859)	(10,451)	(10,198)	(8,588)	(6,235)	(6,025)	(5,819)	(3,111)	(2,989)	(2,862)
New															
Commercial	16,985	34,906	43,454	48,664	53,925	56,268	58,517	60,677	62,750	64,740	66,650	68,484	70,245	71,935	73,557
Business	2,852	4,670	6,430	7,687	7,966	8,028	8,081	8,126	8,165	8,199	8,228	8,252	8,273	8,291	8,307
Loan Loss Reserve	(3,967)	(7,915)	(9,977)	(11,270)	(12,378)	(12,859)	(13,320)	(13,761)	(14,183)	(14,588)	(14,976)	(15,347)	(15,704)	(16,045)	(16,373)
Real Estate															
Parking	-	16,096	16,096	50,079	50,079	76,357	76,357	106,157	106,157	106,157	106,157	106,157	106,157	106,157	106,157
Commercial	125,072	124,765	140,301	140,301	140,301	171,734	178,464	178,464	188,864	188,864	188,864	188,864	188,864	258,969	258,969
Total Assets	284,138	270,929	269,566	312,837	344,213	408,554	389,985	407,986	471,149	448,823	425,476	422,451	415,356	481,962	480,419
Liabilities															
Parking Garage Debt	-	-	-	-	8,538	8,206	22,328	21,692	37,431	36,420	35,375	34,311	33,209	32,069	30,928
Commercial Development Debt	-	-	10,536	10,232	41,344	40,148	38,881	37,537	36,113	34,604	33,004	31,308	29,510	91,628	87,778
Total Liabilities	-	-	10,536	10,232	49,881	48,354	61,208	59,230	73,545	71,024	68,379	65,618	62,719	123,696	118,706
Net Assets	\$ 284,138	\$ 270,929	\$ 259,030	\$ 302,605	\$ 294,332	\$ 360,200	\$ 328,777	\$ 348,757	\$ 397,605	\$ 377,798	\$ 357,097	\$ 356,832	\$ 352,637	\$ 358,266	\$ 361,713

50%

Portland Development Commission
New Loans Model

		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Outstanding Principal																
Beginning - Commercial Property		\$ -	\$ 16,985	\$ 34,906	\$ 43,454	\$ 48,664	\$ 53,925	\$ 56,268	\$ 58,517	\$ 60,677	\$ 62,750	\$ 64,740	\$ 66,650	\$ 68,484	\$ 70,245	\$ 71,935
Average - Commercial Property		8,492	25,946	39,180	46,059	51,295	55,097	57,393	59,597	61,713	63,745	65,695	67,567	69,364	71,090	72,746
Year End - Commercial Property		16,985	34,906	43,454	48,664	53,925	56,268	58,517	60,677	62,750	64,740	66,650	68,484	70,245	71,935	73,557
Beginning - Business		-	2,852	4,670	6,430	7,687	7,966	8,028	8,081	8,126	8,165	8,199	8,228	8,252	8,273	8,291
Average - Business		1,426	3,761	5,550	7,059	7,826	7,997	8,054	8,104	8,146	8,182	8,213	8,240	8,263	8,282	8,299
Year End - Business		2,852	4,670	6,430	7,687	7,966	8,028	8,081	8,126	8,165	8,199	8,228	8,252	8,273	8,291	8,307
New Loans - Commercial Property																
Amount Per New Loan	1,500															
Number New Loans		6	5	3	3	3	3	3	3	3	3	3	3	3	3	3
New Loans - Business																
Amount Per New Loan	120															
Number New Loans		12	12	12	12	10	10	10	10	10	10	10	10	10	10	10
Total New Loans		19,837	20,827	12,370	9,124	8,584	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700	5,700
Income																
Interest Income - Commercial Property	3.25%	276	843	1,273	1,497	1,667	1,791	1,865	1,937	2,006	2,072	2,135	2,196	2,254	2,310	2,364
Interest Income - Business	5.25%	75	197	291	371	411	420	423	425	428	430	431	433	434	435	436
Interest Loss Provision	20.00%	(70)	(208)	(313)	(373)	(416)	(442)	(458)	(472)	(487)	(500)	(513)	(526)	(538)	(549)	(560)
Commitment & Origination Fees	1.00%	198	208	124	91	86	57	57	57	57	57	57	57	57	57	57
Annual Transaction Fees	0.10%	0	2	3	4	4	4	5	5	5	5	5	5	5	5	6
Total Income		480	1,043	1,379	1,589	1,752	1,830	1,892	1,952	2,009	2,063	2,115	2,165	2,213	2,259	2,303
Interest Expense																
% of Principal to Borrow	1.25%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Interest Income		\$ 480	\$ 1,043	\$ 1,379	\$ 1,589	\$ 1,752	\$ 1,830	\$ 1,892	\$ 1,952	\$ 2,009	\$ 2,063	\$ 2,115	\$ 2,165	\$ 2,213	\$ 2,259	\$ 2,303
Loan Repayments - Commercial Property																
Term (years)	25		679	1,396	1,738	1,947	2,157	2,251	2,341	2,427	2,510	2,590	2,666	2,739	2,810	2,877
Loan Repayments - Business																
Term (years)	7		407	667	919	1,098	1,138	1,147	1,154	1,161	1,166	1,171	1,175	1,179	1,182	1,184
Principal Loss Provision																
Loss Provision - Commercial Property	20.00%	-	(136)	(279)	(348)	(389)	(431)	(450)	(468)	(485)	(502)	(518)	(533)	(548)	(562)	(575)
Loss Provision - Business		-	(81)	(133)	(184)	(220)	(228)	(229)	(231)	(232)	(233)	(234)	(235)	(236)	(236)	(237)
Net Principal Repayments		-	869	1,651	2,125	2,436	2,636	2,718	2,796	2,870	2,941	3,009	3,073	3,135	3,193	3,250
Loans Receivable																
Commercial	-	16,985	34,906	43,454	48,664	53,925	56,268	58,517	60,677	62,750	64,740	66,650	68,484	70,245	71,935	73,557
Business	-	2,852	4,670	6,430	7,687	7,966	8,028	8,081	8,126	8,165	8,199	8,228	8,252	8,273	8,291	8,307

Structured Parking

	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Annual Gross Revenue (new garages)			\$2,425,092	\$3,791,644	\$5,902,937	\$6,586,213	\$7,463,793	\$7,463,793	\$8,863,545	\$8,863,545	\$9,717,640	\$9,717,640	\$9,982,275	\$9,982,275	\$10,510,098
Annual Gross Revenue (existing garages)	\$1,051,049	\$1,051,049	\$1,051,049	\$1,313,811	\$1,313,811	\$1,313,811	\$1,313,811	\$1,313,811	\$1,313,811	\$1,642,264	\$1,642,264	\$1,642,264	\$1,642,264	\$1,642,264	\$2,052,830
Total Annual Gross Revenues	\$1,051,049	\$1,051,049	\$3,476,141	\$5,105,455	\$7,216,748	\$7,900,024	\$8,777,604	\$8,777,604	\$10,177,356	\$10,505,809	\$11,359,904	\$11,359,904	\$11,624,539	\$11,624,539	\$12,562,928
Annual Operating Costs		\$0	\$657,186	\$1,123,936	\$1,512,890	\$1,531,933	\$1,742,170	\$1,761,983	\$1,973,004	\$1,993,617	\$2,014,642	\$2,036,088	\$2,061,772	\$2,087,969	\$2,169,799
Annual Ownership Costs		\$0	\$40,355	\$40,355	\$121,828	\$121,828	\$156,480	\$156,480	\$191,132	\$191,132	\$191,132	\$191,132	\$191,939	\$192,763	\$195,232
Annual Operating Costs (new garages)	\$0	\$0	\$697,541	\$1,164,291	\$1,634,718	\$1,653,762	\$1,898,650	\$1,918,463	\$2,164,136	\$2,184,749	\$2,205,774	\$2,227,220	\$2,253,711	\$2,280,732	\$2,365,031
Annual Operating Costs (existing garages)	\$313,007	\$319,267	\$325,652	\$332,166	\$338,809	\$345,585	\$352,497	\$359,547	\$366,738	\$374,072	\$381,654	\$389,185	\$396,969	\$404,908	\$413,006
Total Annual Operating Costs	\$313,007	\$319,267	\$1,023,194	\$1,496,457	\$1,973,527	\$1,999,347	\$2,251,147	\$2,278,009	\$2,530,873	\$2,558,821	\$2,587,328	\$2,616,405	\$2,650,680	\$2,685,639	\$2,778,037
NOI before Debt Service	\$738,042	\$731,782	\$2,452,948	\$3,608,998	\$5,243,221	\$5,900,677	\$6,526,457	\$6,499,594	\$7,646,483	\$7,946,988	\$8,772,575	\$8,743,498	\$8,973,859	\$8,938,899	\$9,784,891
Annual Debt Service	\$0	\$0	\$0	\$0	\$561,206	\$561,206	\$1,230,247	\$1,230,247	\$2,010,617	\$2,010,617	\$2,010,617	\$2,010,617	\$2,010,617	\$2,010,617	\$2,010,617
Net Cash Flow	738,042	731,782	2,452,948	3,608,998	4,682,015	5,339,471	5,296,210	5,269,347	5,635,866	5,936,371	6,761,959	6,732,882	6,963,243	6,928,283	7,774,275
Total Stalls	511	511	1,186	1,186	1,729	1,729	2,089	2,089	2,449	2,449	2,449	2,449	2,449	2,449	2,449
Annual Revenue per stall	2,057	2,057	2,931	4,305	4,174	4,569	4,202	4,202	4,156	4,290	4,639	4,639	4,747	4,747	5,130
Monthly Revenue per stall															

Assumptions

- 1 Locations, sequence and size of garages based on PDC-commissioned studies with Rick Williams Consulting, parking demand/development opportunity and availability of TIF.
- 2 Where required for third party financing, cost assumptions for new garages are based on 2014 studies, grown by 8% per year.
- 3 Construction of Block 49, Old Town and Block R financed with TIF-funding interfund loans to PDC Business Management Fund. ODOT and TBD garaged system financed (see note 8)
- 4 In 2021, it is assumed that \$8 million of the Convention Center Hotel garage would be financed privately at market rates 5%, 25 years)
- 5 Annual Gross Revenues for new garages based 2014 PDC studies from Rick Williams Consulting. Studies provided 10 year average revenues and expenses. Garages with > 10 year projections grow revenues 25% in year 11, expenses grown at 2%.
- 6 Existing garages include Station Place (411 stalls) and RiverPlace (100 stalls)
- 7 Existing garages operating Expenses based on current actual operating expenses and projections derived from PDC studies, grown at 2%

50% Draft