

TSCC Budget Review 2017-18

Prosper Portland

1. Introduction to the District

Prosper Portland is the City of Portland's economic development and redevelopment agency and is responsible for achieving the City's key place-making, job creation, and economic opportunity objectives.

Prosper Portland is governed by a five member, non-salaried commission appointed by the Mayor and approved by City Council. Though Prosper Portland is independent of the City, it works closely with the City to execute the City's economic development plans.

2. History

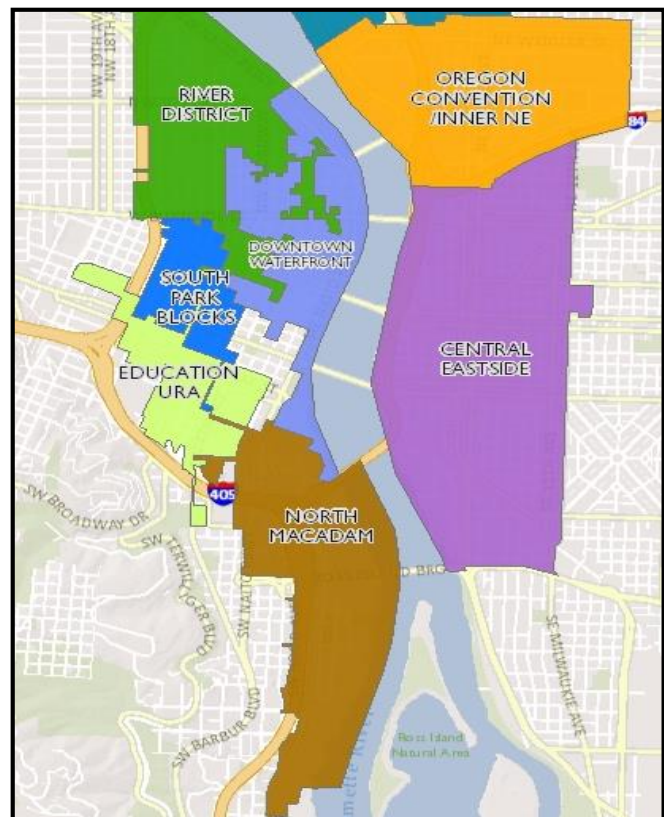
Prosper Portland is the new name for the Portland Development Commission. In May of this year, the agency changed its name to the Prosper Portland, which reflects the agency's shift toward more inclusive economic development. The agency considers "Prosper Portland" to speak to its focus on sharing the gains of economic growth equitably.

The agency was created by Portland voters in 1958 after the 1957 State Legislature authorized cities and counties to create to receive federal urban renewal funds and to collect property taxes using tax increment financing. Since that time the agency and the City have activated 25 plan areas. Of those five have been closed and four others were formed but never utilized tax increment financing.

Of the 16 current plan areas, six are small Neighborhood Prosperity Initiative (NPI) areas. These areas are geographically and financially small. They are designed for small scale economic development activities on the east side of Portland.

Six plan areas are located downtown and close in on the east side.

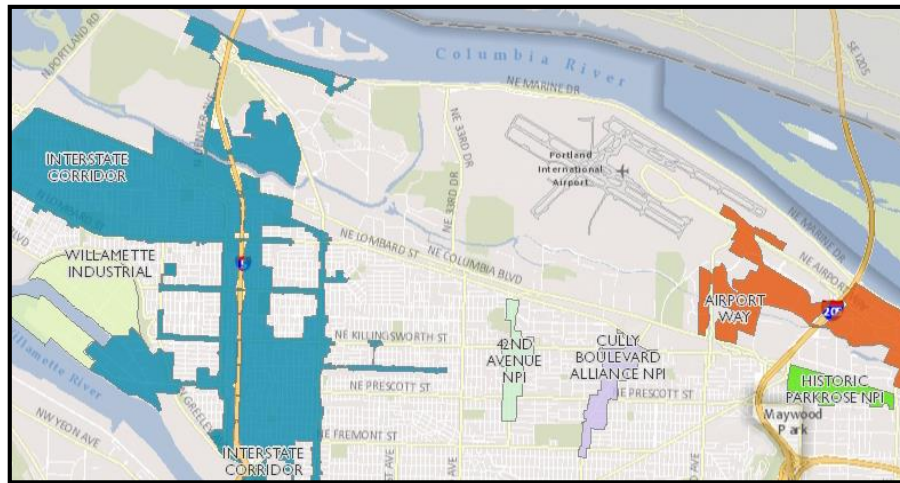
- River District
- Downtown Waterfront
- South Park Blocks
- North Macadam
- Oregon Convention Center
- Central Eastside



Six central districts
(Education district has been dissolved)

Five plan areas are on the north side of Portland.

- Interstate Corridor
- 42nd Ave NPI
- Cully Blvd Alliance NPI
- Historic Parkrose NPI



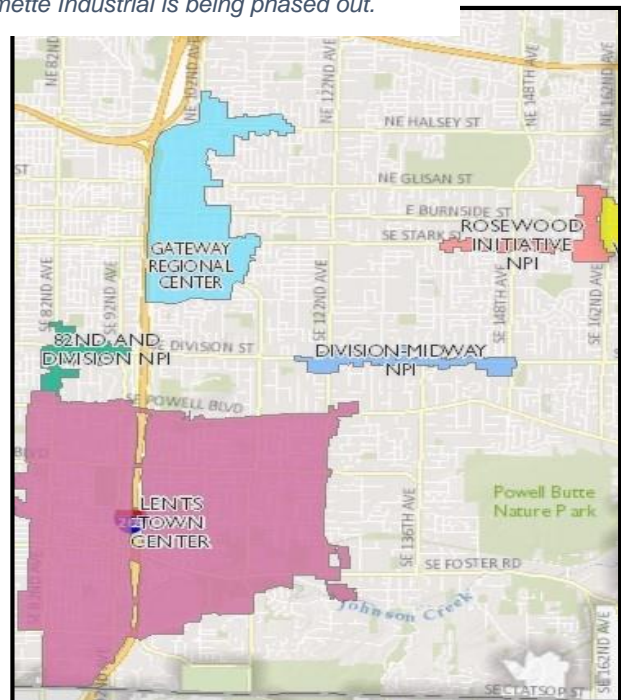
- Airport Way

Five north side plan areas (Willamette Industrial is being phased out).

Five areas are in the southeast portion of the City.

- Lents Town Center
- Gateway Regional Center
- 82nd and Division NPI
- Division Midway NPI
- Rosewood Initiative NPI

Eight URAs - River District, Central Eastside and all six NPIs – are statutorily limited in revenue generation. If the estimated tax increment to be received exceeds 3% of a plan area's maximum indebtedness, then a portion of the increase in assessed value is reallocated to the other taxing districts that levy within these URAs.



Five southeast plan areas

Four plan areas - Airport Way, Downtown Waterfront, Convention Center, and South

Park Blocks - have either reached their maximum indebtedness and/or reached the plan's expiration date. These four areas can no longer issue debt but will continue to collect tax increment revenues until the outstanding debt has been paid off.

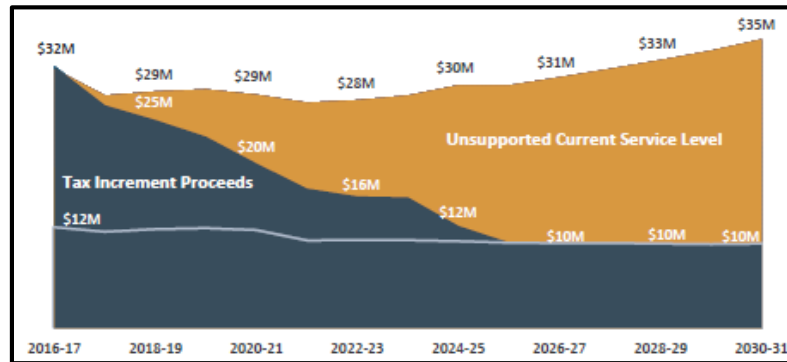
In addition to tax increment financing, four of the oldest active plan areas (Downtown Waterfront, Convention Center, Airport Way, and South Park Blocks) can impose a special levy over all property within the City of Portland's boundaries. The City has limited the special levy for the last several years to \$15,000,000 for all four plan areas (although the amounts allocated to each plan area change from year to year).

Urban Renewal Area	Maximum Indebtedness	Indebtedness Issued as of 12/31/16	Indebtedness Remaining as of 12/31/16	Projected Indebtedness to Be Issued	Last Date to Issue Long Term Debt	Acres
Airport Way	\$72.6	\$72.6	\$0.0	\$0.0	May 2011	885.0
Central Eastside	\$126.0	\$99.1	\$26.9	\$26.9	August 2023	708.5
Convention Center	\$167.5	\$167.5	\$0.0	\$0.0	June 2013	410.0
Downtown Waterfront	\$165.0	\$165.0	\$0.0	\$0.0	April 2008	233.1
Gateway	\$164.2	\$46.0	\$118.2	\$48.6	June 2022	658.5
Interstate Corridor	\$335.0	\$193.2	\$141.8	\$141.8	N/A	3,990.0
Lents Town Center	\$245.0	\$135.9	\$109.1	\$91.9	June 2020	2,846.3
Neighborhood Prosperity Initiative (6)	\$7.5	\$1.2	\$6.3	\$6.3	N/A	803.7
North Macadam	\$288.6	\$157.1	\$131.4	\$131.4	June 2025	447.0
River District	\$489.5	\$361.7	\$127.8	\$127.8	June 2021	314.8
South Park Blocks	\$143.6	\$112.0	\$31.6	\$0.0	July 2008	156.3

Prosper Portland	2014-15	2015-16	2017-18	2017-18
Base Frozen Value in Billions	\$5.518	\$4.415	\$4.779	
Excess Value Used in Billions	\$5.450	\$5.815	\$6.495	
Excess Value Not Used in Billions	\$3.254	\$3.523	\$2.861	
Total Value All Plan Areas in Billions	\$14.090	\$13.777	\$14.135	
Special Levy Tax Rate	\$\$0.2642	\$0.2527	\$0.2405	
Number of Plan Areas	18	16	16	16
Measure 5 Loss	\$-12,653,326	\$-7,454,302	\$-6,758,289	
Number of Employees (FTE's)	93.0	93.0	85.5	85.5

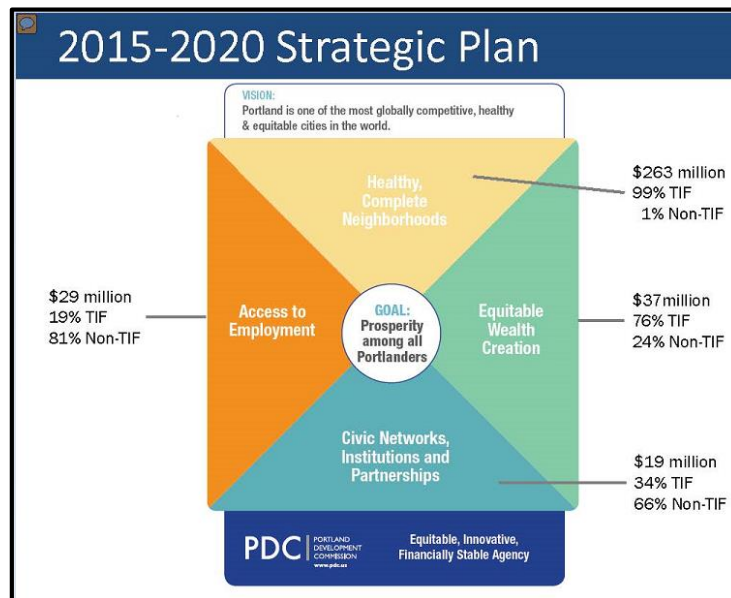
3. Strategic Plan/Performance Objectives

Prosper Portland has historically relied on tax increment financing (TIF), and cash transfers from the City of Portland to carry out its mission. TIF can only be used for improvement projects in urban renewal areas. The City's additional funding is used for economic development efforts in the city, with no geographical limitations. As urban renewal areas age, and taxing authority expires, TIF revenues decrease. In addition, the City has made conscious decisions to close and reduce urban renewal areas. This has resulted in decreased TIF projections, leading the agency to rethink its mission and seek other revenue sources. The diagram on the following page illustrates the agency's funding constraints.



This chart is from the City of Portland Budget Office analysis of the Prosper Portland budget.

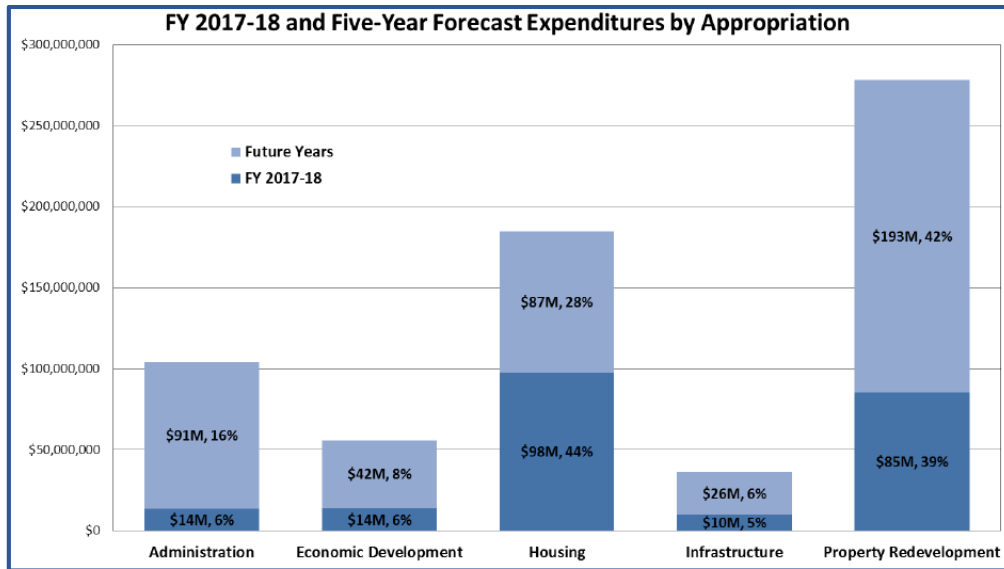
In 2015, the agency completed a new strategic plan. The focus is on prosperity and how the agency can facilitate that prosperity. Thus, the corresponding new name, Prosper Portland. Here is a diagram of the plan.



What this has meant is that over the last two years, the agency has increased its efforts to encourage, facilitate, and support the growth and development of small businesses and entrepreneurship, especially among underrepresented communities.

In addition, the County and the Cities increased emphasis on reducing homelessness and providing services to homeless people has limited the agency's flexibility. The Portland City Council has directed that 45% of all new TIF-backed debt proceeds will be used to combat homelessness.

The dollar amounts in the Strategic Plan chart above are five year totals for the goal areas. The chart on the following page shows the agency's five year funding plan.



4. Budget in Total

The 2017-18 budget is \$355.6 million, a decrease of \$202.2 million (36%) from the revised current year budget. \$96 million of the reduction is in the core expenditures of the budget, and \$106 million of the decrease is in contingency and fund transfers. These decreases return the budget to the FY15 and FY16 levels. The current year budget is unusually high due to capital project spending of \$156 million.

Prosper Portland				
Total Expenditures - All Funds Combined				
By Program				
(\$ Millions)				
	2014-15 Actual	2015-16 Actual	2016-17 Revised Bud	2017-18 Budget
Property Redevelopment	\$ 25.4	\$ 30.2	\$ 219.2	\$ 85.4
Housing	20.8	14.5	56.3	92.2
Infrastructure	5.6	6.4	7.0	10.0
Economic Development	11.0	20.3	15.3	14.2
Administration	12.2	14.2	13.6	13.7
Total Expenditures	\$ 74.9	\$ 85.6	\$ 311.3	\$ 215.4
Fund Transfers	12.3	17.0	85.1	13.2
Contingency	-	-	161.3	126.9
Ending Fund Balance	216.8	280.8	-	-
Total Requirements	\$ 304.0	\$ 383.4	\$ 557.8	\$ 355.6

Prosper Portland is drawing down fund balance this year and is budgeted to do that again next year. These are planned drawdowns.

Prosper Portland				
Annual Gain/(Loss) - All Funds Combined				
(\$ Millions)				
	2014-15 Actual	2015-16 Actual	2016-17 Revised Bud	2017-18 Budget
Subtotal Revenues	\$ 100.9	\$ 149.5	\$ 190.6	\$ 180.6
Subtotal Expenditures	74.9	85.6	311.3	215.4
Annual Gain/(Loss)	\$ 26.02	\$ 63.96	\$ (120.70)	\$ (34.81)

Revenues:

Prosper Portland has no taxing authority. It relies on the City of Portland to issue debt on its behalf. The agency has four revenue sources.

1. Tax Increment Debt Proceeds: The proceeds of debt issued by the City of Portland and backed by tax increment revenue. Portland levies the tax, issues debt, and transfers the debt proceeds to Prosper Portland. State statutes tightly regulate the generation and spending of Tax Increment Revenue. In general, Prosper Portland uses the debt proceeds for projects, and the City of Portland uses the tax increment revenue for debt service.
2. Loan Collections: Repayment of economic development loans to local organizations.
3. Property Income: Prosper Portland generates revenues from leases, property sales, and other sources.
4. Intergovernmental Revenue: The City of Portland transfers a portion of its unrestricted funds to Prosper Portland for economic development efforts. It also transfers state and federal grant money to the agency.

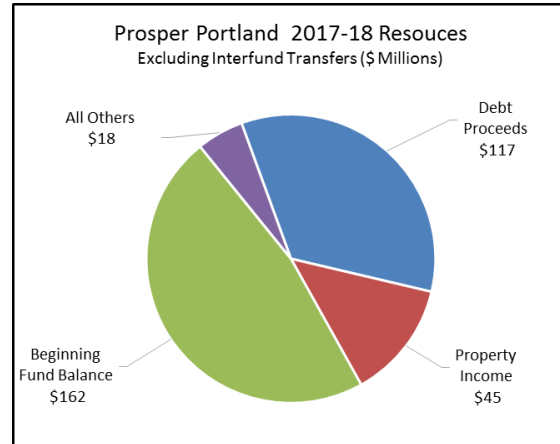
The revenue from these sources is used in three ways.

1. Tax increment revenues are used only for projects to eliminate blight in urban renewal areas
2. Loan collections, property income, and some intergovernmental revenues are discretionary, but within the umbrella of economic development.
3. State and federal grants are restricted to the purpose of the grant.

Total revenue¹ from all funds is decreasing by \$10 million (5%) to \$180.6 million in 2017-18.

¹ Revenues are resources less beginning fund balance, transfers and service reimbursements

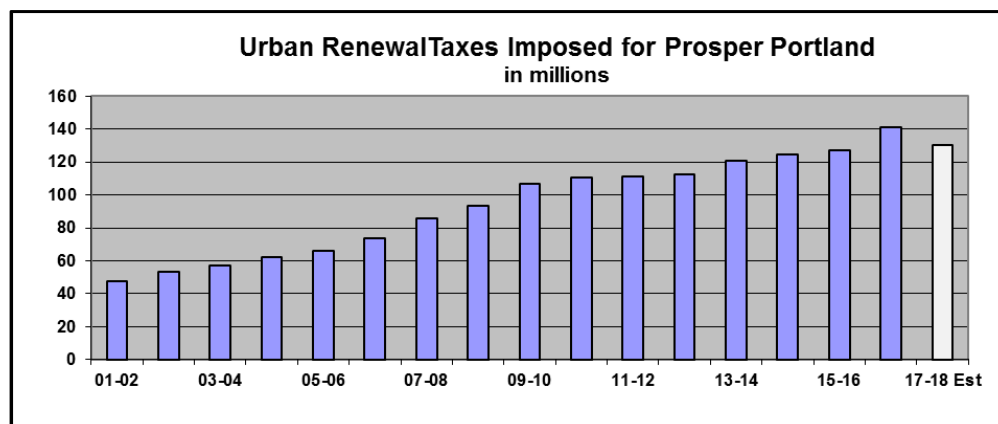
Prosper Portland				
Total Resources - All Funds Combined				
(\$ Millions)				
	2014-15 Actual	2015-16 Actual	2016-17 Revised Bud	2017-18 Budget
Debt Proceeds	\$ 54.2	\$ 88.9	\$ 116.5	\$ 117.1
Loan Collections	23.3	15.0	25.5	7.0
Property Income	11.3	10.7	21.7	45.2
Intergovernmental Revenue	9.1	10.6	9.4	8.9
Other Revenue	3.0	24.4	17.5	2.3
Subtotal Revenues	\$ 100.9	\$ 149.5	\$ 190.6	\$ 180.6
Beginning Fund Balance	\$ 190.8	\$ 216.8	\$ 282.0	\$ 161.7
Fund Transfers	12.3	17.0	85.1	13.2
Total Resources	\$ 304.0	\$ 383.4	\$ 557.8	\$ 355.6



The City of Portland is transferring \$5.8 million to the agency for economic development projects.

City of Portland Transfers to Prosper Portland				
(\$ Millions)				
	2014-15 Actual	2015-16 Actual	2016-17 Revised Bud	2017-18 Budget
Discretionary Funds:				
For Neighborhood Econ Dev	\$ 3.4	\$ 4.6	\$ 4.1	\$ 2.0
For Economic Opportunity	0.2	-	-	1.5
For Accounting	0.5	0.1	-	-
For Traded Sector Econ Dev	1.7	2.3	1.7	2.3
Total Discretionary	\$ 5.8	\$ 7.0	\$ 5.8	\$ 5.8

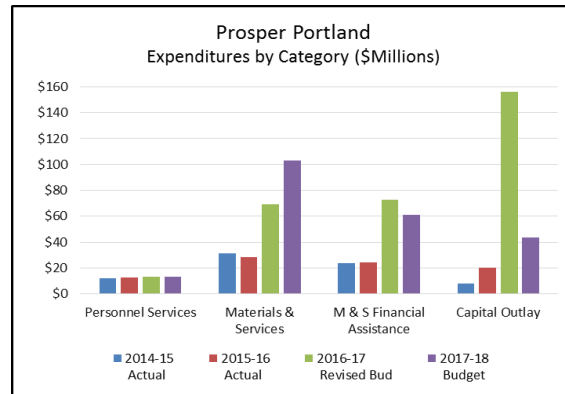
The City of Portland is imposing \$141 million in property taxes in the current year for the urban renewal aspect of Prosper Portland's work. The City budget for 2017-18 will impose \$130 million. This revenue will stay in the city budget to pay debt service on bonds issued for Prosper Portland. The bond proceeds, themselves are in Prosper Portland's Debt Proceeds revenue line item.



Expenditures:

Expenditures are unusually high this year because of the post office site purchase and construction contracts for the convention center hotel parking garage. In 2017-18, total expenditures will fall to \$220.7 million, with a significant increase in materials and services costs for affordable housing projects.

Prosper Portland				
Total Requirements - All Funds Combined				
(\$ Millions)				
	2014-15 Actual	2015-16 Actual	2016-17 Revised Bud	2017-18 Budget
Personnel Services	\$ 11.9	\$ 12.6	\$ 12.9	\$ 13.2
Materials & Services	31.4	28.5	69.4	97.4
M & S Financial Assistance	23.4	24.4	72.7	61.3
Capital Outlay	8.2	20.1	156.4	43.6
Subtotal Expenditures	\$ 74.9	\$ 85.6	\$ 311.3	\$ 215.4
Fund Transfers	12.3	17.0	85.1	13.2
Contingencies	-	-	161.3	126.9
Ending Fund Balance	216.8	280.8	-	-
Total Requirements	\$ 304.0	\$ 383.4	\$ 557.8	\$ 355.6



Personnel Services:

Total expenditures for Personnel Services are increasing by 2.0% in 2017-18. Staffing levels are the same as in the current year budget. Personnel Services cost per FTE, \$153,832, are the highest of any jurisdiction TSCC has monitored this year. They rose by 12% in the current year. (A more refined analysis by Prosper Portland staff reduced this year's increase to 10%). Less than a third of that increase (for either calculation) is due to pension bond payments and early retirement program costs. Taking pension bond payments out of the calculation reduces the 2017-18 per FTE costs to \$142,338, still the highest of the districts surveyed this spring.

Prosper Portland				
Personnel Services Costs				
	2014-15 Actual	2015-16 Actual	2016-17 Revised Bud	2017-18 Budget
Personnel Services Costs	\$ 11,918,570	\$ 12,556,210	\$ 12,890,046	\$ 13,152,671
Total FTE	93.0	93.0	85.5	85.5
Costs per FTE	\$ 128,157	\$ 135,013	\$ 150,761	\$ 153,832
Annual Increase	-	5%	12%	2%

The realignment of the agency's mission is shown by the shift of personnel to different programs. The following chart illustrates the shift from traditional urban renewal agency functions to economic and community development functions

Prosper Portland				
Staffing Summary-Full Time Equivalent Positions				
	2014-15 Actual	2015-16 Actual	2016-17 Revised Bud	2017-18 Budget
Urban Development	38.0	38.0	-	-
Real Estate and Lending	14.0	14.0	-	-
Development & Investment	-	-	24.0	24.0
Economic Development	-	-	22.5	22.5
Equity and Communications	6.0	6.0	10.0	10.0
Administration	35.0	35.0	29.0	29.0
Total	93.0	93.0	85.5	85.5

Materials and Services:

Materials and services are increasing from \$69 million this year to \$97 million in 2017-18. This increase reflects stepped up efforts in housing, an area in which Prosper Portland reimburses the City for its work (hence all of the expenditures are classified as Material and Services). These reimbursements were \$13 million in FY16; \$56 million in the current year; and are budgeted for \$86 million in 2017-18.

Financial Assistance:

Financial assistance materials and services account for loan and grant disbursements to private developers and other agency partners. In 2017-18 it is budgeted at \$61 million, a decrease of \$12 million from the current year. Of the total amount, over \$33 million is paid out in the form of loans. The largest 2017-18 financial assistance packet is \$20 million in the Lents URA budget.

Financial Assistance is funded by multiple revenue sources. TIF funding is used, but only to support construction and tenant improvements in URA areas. Grants and program income is used to support economic development efforts city-wide.

Capital Outlay:

The capital outlay expenditures are used to finance Prosper Portland's share of capital projects, mostly infrastructure improvements, transportation capital projects, including light rail and Portland Streetcar, and parks within urban renewal areas.

Capital outlay expenditures for 2017-18 are \$43.6 million, just 28% of the current year's budget. The large capital outlay expenditures this year were for acquisition of the U.S. Post Office in the River District URA and construction contracts for the Convention Center Hotel Garage in the Convention Center URA (the last two of which, are carried over to next year).

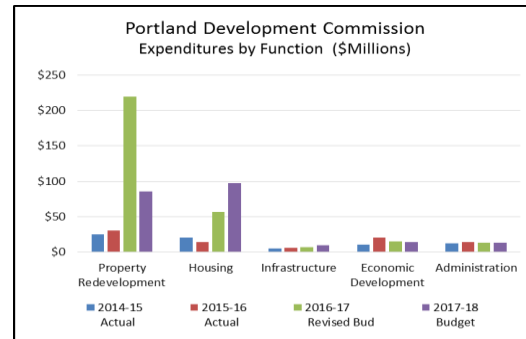
The 17-18 Capital Outlay projects are a concentration of remaining funds in Downtown Waterfront and River District associated with the Old Town/China Town Action plan (a total of \$27 million). Smaller projects are pending in other areas. The Old Town/China Town funds will be used to support mixed-use development (which may include parking). Prosper Portland is reviewing several potential projects for this area, but has not committed to any yet.

Expenditures by Function

Budget appropriations are made by functions that cross department and fund lines. The program areas are:

- **Property Redevelopment;** facilitate private development through various loans and grants programs as well as developmental and disposition agreements.
- **Housing;** develop projects and programs for affordable housing funded through an intergovernmental agreement with the Portland Housing Bureau.
- **Infrastructure;** facilitate development of public infrastructure improvements, such as parks, light rail, and other public facilities.
- **Economic Development;** activities and funding to support cluster industry development, business lending and small business entrepreneurship.
- **Administration;** All administrative functions.

Prosper Portland				
Total Expenditures - All Funds Combined				
By Program				
(\$ Millions)				
	2014-15 Actual	2015-16 Actual	2016-17 Revised Bud	2017-18 Budget
Property Redevelopment	\$ 25.4	\$ 30.2	\$ 219.2	\$ 85.4
Housing	20.8	14.5	56.3	92.2
Infrastructure	5.6	6.4	7.0	10.0
Economic Development	11.0	20.3	15.3	14.2
Administration	12.2	14.2	13.6	13.7
Total Expenditures	\$ 74.9	\$ 85.6	\$ 311.3	\$ 215.4



Contingencies, Transfers, Unappropriated:

Prosper Portland budgets all funds that are not to be expended as contingency. It does not budget ending fund balance. This allows Prosper Portland to be nimble enough to respond to new opportunities as they emerge.

Contingencies in the budget are decreasing from \$161 million in 2016-17 to \$127 million in 2017-18. Prosper Portland's contingency fluctuates annually due to cash inflows from debt issues and outflows spent on projects.

Interfund Transfers are in balance across all four years.

5. Analysis of General Fund

The total General Fund budget for 2017-18 is \$21.4 million, a decrease of \$0.8 million (5%) from the current year's budget. Decreases are uniform throughout the budget.

Prosper Portland				
Total Requirements - General Fund				
(\$ Millions)				
	2014-15 Actual	2015-16 Actual	2016-17 Revised Bud	2017-18 Budget
Administration	\$ 11.8	\$ 13.0	\$ 12.7	\$ 12.7
Economic Development	5.5	6.8	5.8	5.6
Housing	0.1	0.1	0.1	-
Property Redevelopment	0.3	0.3	0.4	0.3
Total Expenses	\$ 17.6	\$ 20.1	\$ 19.1	\$ 18.6
Fund Transfers	0.4	0.5	0.6	0.4
Contingency	-	-	1.5	1.4
Ending Fund Balance	1.8	1.4	-	-
Total Requirements	\$ 19.8	\$ 22.0	\$ 21.2	\$ 20.4

The agency budgets almost all of its personnel services costs in the general fund and charges the URA funds for their portions of the personnel services costs. Therefore, almost all General Fund revenue comes from service reimbursements from the URA funds. A total of \$13 million is budgeted for 2017-18 service reimbursements. This is 65% of the total fund resources. The General Fund also receives the City of Portland allocation for economic development activities. The amount of \$5.8 million is 28% of total resources.

Prosper Portland				
Total Resources - General Fund				
(\$ Millions)				
	2014-15 Actual	2015-16 Actual	2016-17 Revised Bud	2017-18 Budget
Beginning Fund Balance	\$ 2.0	\$ 1.8	\$ 1.4	\$ 1.4
Service Reimbursements	11.6	13.4	13.5	13.0
City of Portland (Local)	5.2	6.0	5.6	5.8
Other Income	0.9	0.9	0.6	0.2
Total Resources	\$ 19.8	\$ 22.0	\$ 21.2	\$ 20.4

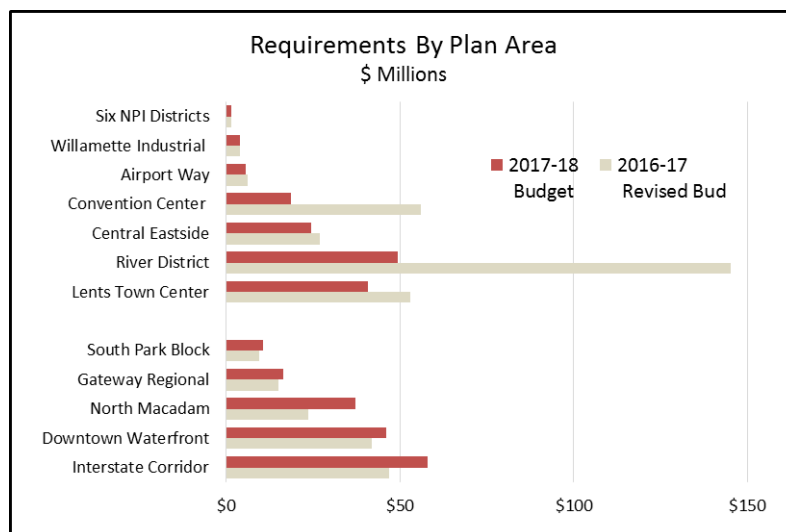
The General Fund's beginning fund balance has been declining steadily over the last four years. It now represents 7% of total resources.

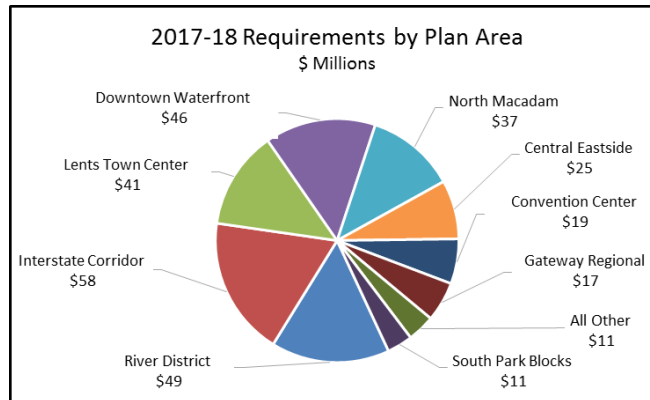
6. Analysis of Other Funds

The remainder of the agency's 21 funds are of two types: urban renewal area funds and economic development funds.

Urban Renewal Funds

Except for the 6 NPI districts, which are in one fund, each urban renewal area has its own fund. This section will briefly touch on budgets for those funds and the planned 2017-18 activities. Five of the funds (shown at the bottom of the following chart) have increasing expenditures in the 2017-18 budget.



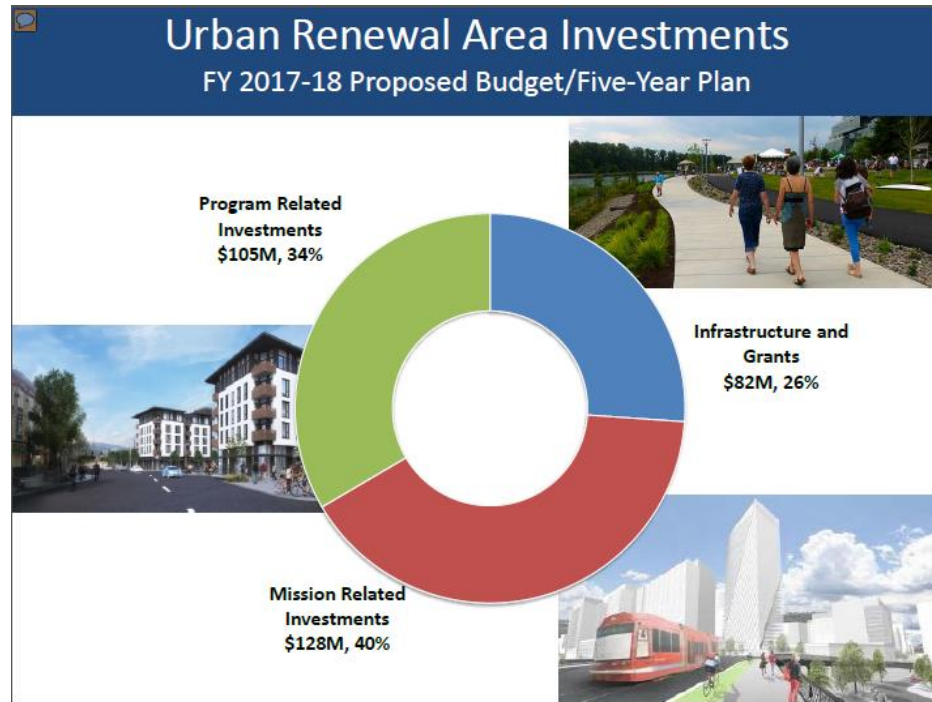


Prosper Portland					
Urban Renewal District Funds 2017-18					
\$ Millions					
	Beginning Fund Balance	Revenue	Expenses	Contingency (Ending Fund Bal)	Major Initiatives
Airport Way	\$ 5.6	\$ 0.2	\$ 0.3	\$ 5.5	
Central Eastside	18.2	6.4	6.9	17.6	Property redevelopment and job growth
Convention Ctr	3.5	15.2	10.8	7.9	Conv Ctr Hotel & Garage, Rose Qtr development
Downtown Wfront	38.8	7.5	16.0	30.2	Property development, parking, historic preservation
Gateway Reg Ctr	11.9	4.7	12.7	3.9	Halsey/Weidler corridor & Mixed use dev@ NE106th
Interstate Corridor	29.2	28.7	49.0	8.9	Housing, livability projects, and business growth
Lents Town Ctr	5.9	35.0	39.9	1.0	Property developmt: Oliver Sta., Asian Health, others
NPI	0.5	1.2	1.1	0.5	Full time district managers
North Macadam	12.9	24.3	27.4	9.8	Waterfront development, housing, & infrastructure
River District	11.9	37.5	33.8	15.6	Union Station, Centennial Mills & Housing
South Park Blocks	3.5	7.1	6.3	4.3	
Willamette Ind	4.0	0.0	0.1	3.9	
Totals	\$ 145.9	\$ 167.6	\$ 204.2	\$ 109.3	

The agency categorizes its non-housing URA expenditures three ways.

1. Mission-Related Investments (MRIs): Market-rate investments that support the mission of PDC while generating reasonably competitive rates of financial return (around 6%)
2. Program Related Investments (PRIs): Investments that are made primarily to achieve high levels of public and community benefits. Program related investments are expected to be repaid usually with a below market rate of return (<6%).
3. Infrastructure and Grants: Investments in public infrastructure (transportation, parks, public facilities) or community redevelopment grants to private and non-profit entities. Made to maximize public and community benefit with no repayment (no return).

The following chart shows the anticipated level of investment for each category over the next five years.



Economic Development Funds

Prosper Portland has six other funds dedicated to specific economic development activities using non-TIF resources. Combined 2017-18 expenditures for the funds total \$5 million, an insignificant change from prior years.

7. Debt Status

Prosper Portland typically does not issue debt. As noted above, debt backed by tax increment financing revenue is issued by the City of Portland. Prosper Portland has secured a line of credit from the City of Portland totaling just over \$34.6 million to provide interim financing for the U.S. Postal Service property redevelopment. The line of credit will be repaid from sales of Phase One of the redevelopment, anticipated in 2019-20. In the current year \$18 million was drawn and the 2017-18 budget anticipates no additional draws.

8. Budget Alignment with Strategic Plan / Performance Objectives

Prosper Portland operates almost exclusively around specific projects. As such the budget also is “project oriented”. All expenditures can be tied directly to a specific project. The budget includes a Five-Year Forecast section where each project’s expenditures are detailed for the current fiscal year, upcoming fiscal year and four future years.

9. Budget Process & Compliance

Yes	No	Compliance Issue
✓		1. Did district meet publication requirements?
✓		2. Do resources equal requirements in every fund?
✓		3. Are contingencies shown only in operating funds?
✓		4. Did budget committee approve the budget?
✓		5. Did budget committee set the levy?
	✓	6. Does audit show the district was in compliance with budget law? 7. The June 30, 2015 audit shows that expenditures exceeded appropriation authority in the North Macadam Urban Renewal Area fund by \$558,562 due to an invoice for FY16 work submitted after July 1, 2016.

10. Highlights of 2017-18 Budget to be Published in TSCC's Annual Report

- The 2017-18 budget is \$355.6 million, a decrease of \$202.2 million (36%) from the revised current year budget.
- \$96 million of the reduction is in the core expenditures of the budget and \$106 million of the decrease is in contingency and fund transfers. These return the budget to its historical size following a large increase in capital spending in the current year.
- The City of Portland is transferring \$5.8 million to the agency for economic development projects.
- The City of Portland will impose \$130 million in Urban Renewal Taxes in 2017-18, an \$11 million (8%) decrease from this year.
- District staffing (85.5 FTE) is consistent with this year.
- Expenditures for housing will increase from \$56 million this year to \$92 million in 2017-18.

Local Budget Law Compliance:

The 2017-18 Budget is in substantial compliance with local budget law. Estimates were judged to be reasonable for the purpose shown.

Certification Letter Recommendations and Objections:

The 2015-16 CAFR notes a \$558,562 over expenditure in the North Macadam Area Fund. District staff informed TSCC in a May 11, 2017 letter that they acknowledged the issue and have increased staff training to avoid similar occurrences in the future.