New Economic Development Resources for New Challenges and Opportunities

Recommendations Report

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NEW ECONOMIC DEVELOPMENT RESOURCES FOR NEW CHALLENGES AND OPPORTUNITIES

Portland needs to move quickly and aggressively to develop new and more flexible resources to support development that will build economic assets, create jobs, and strengthen economic opportunity. The resources the city has available now are not sufficient to confront the challenges or to realize the opportunities it faces. The Portland Development Commission cannot rely on 20th century tools to find advantage in a complex 21st century economy.

Looking back, Portland has been seen as a city with many of the attributes for economic success – and for good reason. Over a long period, the city has pursued smart strategies of supporting public transit, walkable neighborhoods, and high-density, mixed use development. It pursued "green" before green was hip and has a sizzle envied by many. Quality of life attributes like these helped to make Portland an attractive environment for educated workers and creative entrepreneurs to live and work in the city, and businesses to come and stay.

Looking ahead, Portland remains a cool city, but being cool was never quite enough before and it is not nearly enough now. The global recession has reminded everyone that further work is needed to overcome the region's vulnerabilities. Consider the following economic problems:

- The current recession has struck Portland harder than the nation as a whole. Since its peak in January 2008, the regional economy has lost 44,000 jobs—a decline of 4.3%.

- Portland's unemployment rate has shot up to 11.1% in March, far above the national average of 8.5% and the number of unemployed persons has more than doubled, from 60,000 to 140,000 over the past year.

- Portland's economy is about 40% more dependent on durable goods manufacturing than the nation as a whole, making it more vulnerable to the national slowdown in consumer spending and business investment and the global slowdown in trade.

- The metro region's workforce continues to grow at 2.4% annually—about six times faster than in the nation as a whole, even in the face of job declines, increasing the need for new jobs.

- Even prior to the current recession Oregon had a stagnating median household income -- it has remained at roughly $48,730 since 2000. In addition, poverty has not improved over the long term – over the last three decades it has grown from one in 37 households to on one in twenty today.

While we expect the US economy to recover, recovery doesn't mean that the nation—or the region—will get back the kinds of jobs and businesses it lost to the recession. In a time of rapid technology advances, short product life cycles, tight global linkages, and volatile international markets, individual businesses and economic clusters will succeed only to the extent that they can generate innovative processes and better products – and do it smarter and faster than their competitors. City economic development success depends on creating an environment where that innovation can happen quicker than in other regions. It depends on providing small business with financial and intellectual capital to grow their products and services and on creating market opportunities that encourage entrepreneurs to take risk and thrive.

Most importantly, innovation depends on the ready availability of talent. Companies will prosper only in places that have lots of talented workers and places to which they can readily recruit others. There is strong evidence that talented workers are themselves increasingly concentrating in places that have a high quality of life and that quality of life plays an increasingly crucial role in economic development.

The PDC's new economic development strategy is a sophisticated embrace of this new reality. The strategy builds opportunities for innovation by promoting an environment that can grow the availability of talented entrepreneurs and workers and create great places for them to want to stay and work and build their business. Highlights from PDC's economic development strategy that converge with this emphasis include:

- advancing a cluster strategy (identification and seeding industry networks);

- supporting and integrating efforts to drive new technologies and spur innovation (P+OSI, eco-districts, partnership with higher education);

- increasing talented workers and entrepreneurs, and attracting and retaining them through development of quality of life (workforce development, placemaking/Main Streets, small business assistance); and

- focusing on sustainability as a competitive advantage and driver to diversify and grow the economy and create opportunity for all.

However, good strategy without adequate resources will not be successful. When we examined development resources in Portland relative to peer cities, we found Portland behind the rest. Other cities have more generous, long-haul revenue streams and more flexible tools to support economic development. In contrast, the PDC is dependent on a thin and fluctuating stream of year-to-year funding from the city's general fund resources and its primary tool for economic development – tax increment financing – is diminishing in both relevance and reach.

The recommendations that follow aim in part at helping Portland catch up to competitor cities – especially in funding basic economic cluster and industry support strategies. But they also aim at helping Portland stake a new position of leadership in extracting economic advantage from an aggressive strategy of environmental sustainability, maintaining Portland's "first mover" status for innovative new policies that promote local sustainability. These recommendations also leverage existing tools and relationships to provide the finance capital critical to cultivate business innovation and human capital necessary to compete in a 21st century economy.

A summary of our recommendations is listed in the chart on the next page of the report. Following this chart is a section that draws on key findings from our comparative research delivered to PDC March 2009. The key findings frame the full recommendations in the final section of the report. This section, called "Recommendations to Keep Portland Competitive and Build a Prosperous, Sustainable Economy," begins on page 10.

Summary of Recommendations

A. Increase city investment and funding streams to scale up economic development activities in the short and long term.	1. Increase the city's general fund appropriation	
	2. Adopt new long-term revenue streams for unrestricted economic development investment	a. Monetize an emissions cap or adopt a carbon tax
		b. Implement real estate linkage fees
		c. Monetize city investment in parking
		d. Set up a real estate trust or annuity
	3. Tap into existing funding streams to better support economic development	a. Bundle existing tools to advance R&D and entrepreneurship
		b. Create a commercial and industrial district-scale financing mechanism for energy efficiency projects
		c. Fund efforts to grow Portland's own labor force and increase the talent pool
B. Extract economic benefit without new funding through policy advocacy, procurement practice, setting benchmarks, branding, and public-private partnerships.	1. Pursue policy that demonstrates the city's commitment to sustainability	a. Advocate for cap and trade to benefit Portland
		b. Capture cap and trade proceeds
		c. Gain state-level support for Portland's sustainability districts
	2. Create firm-level incentives through public procurement approaches	
	3. Match the city's drive to sustainability with clear benchmarks	a. Benchmark net new companies in the green market
		b. Adopt an ambitious goal – 10,000 net new green jobs in 5 years
		c. Set aggressive targets for green innovation
	4. Launch a sustainability branding campaign	
	5. Establish clear roles and responsibilities to pursue catalytic public-private opportunities in the city and region	

HOW PORTLAND STACKS UP: A SUMMARY OF FINDINGS THAT FRAME THE RECOMMENDATIONS

The summary findings in this section give an indication of how Portland fares relative to comparable cities in terms of funding economic development and the ways economic development financing tools and strategies are organized to support city agendas. The findings are drawn from a larger comparative research report delivered to PDC March 2009.[1] This research addressed a number of key questions PDC wanted answered to help it craft its economic development strategy. These questions principally revolved around how 11 benchmark cities[2] organize and fund economic development, which financing and funding tools they use, and which tools and strategies are particularly relevant to the city's new economic development strategy. While the full research addressing these questions is detailed in the March 2009 report, the following summary highlights key findings and frames the set of recommendations for this report.

Portland as a First Mover

Benchmark cities are still chasing Portland and its unique niche in sustainability, confirming the city's first mover status and a highly sought-after competitive advantage in sustainability. Smart strategies to support public transit, walkable neighborhoods, and high-density, mixed use development have paid off well. Portland's long-term infrastructure investments have laid the foundation both in attracting and retaining sustainable industries as well as developing a sustainable way of life that matches the cultural values of city residents. Portland has consistently ranked above the benchmark cities in venues such as *Sustain Lane.*

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[1] FutureWorks and Impresa Consulting, *Comparative Research on Funding Tools and Financing Mechanisms for Economic Development*, March 15, 2009.

[2] PDC and the consulting team organized these cities into two groups. The first group of five cities is comparable in population and scale of their economies to Portland. They are Austin, Boston, Denver, Minneapolis and Seattle. Our comparative research examined the broad economic development structure and principal funding and finance tools of each city. The second group of cities varies more in population and scale of their economies, but each city had a high profile or orientation to sustainability that made it a logical comparison. Six cities are in this group: Albuquerque, Chicago, Sacramento, San Jose, Toronto and Vancouver. Within this group we focused our research on sustainability strategies, examining the basic program and the tools and incentives associated with it.

The city continues to pursue innovations in sustainability which gives it advantage – perceived and real – over other cities of similar size and economy. In interviews conducted for this research, officials from these other cities consistently cite Portland as the model for their sustainability efforts, suggesting a "Portland brand" that continues to evolve.

Innovation, Entrepreneurship, and Industry Clusters

Our research reveals, however, that these first mover advantages are imperiled by limited and relatively inflexible development resources and tools that do not measure up to those of competitor cities In important ways different from Portland, the benchmark cities studied employ a variety of available financing tools and strategies to develop and support the entrepreneurial culture, venture capital, and industry innovation, and/or sustainability that encourages business attraction, development, and retention.

Our comparative research shows that benchmark cities:

a. Support industry innovation and commercialization through direct city investment and significant public-private collaborations:

   - Austin invests in technology incubators in partnership with the University of Texas at Austin and hosts a jointly funded Clean Energy summit that connects entrepreneurs to venture capital.

   - Sacramento has reprogrammed old economic incentives to advance and promote new clean technology commercialization and enterprises through its Clean Tech Zone.

b. Align, fund and coordinate workforce development efforts closely with city economic development:

   - Seattle uses city general funds both to finance direct job training programs focused on low income adults in high demand sectors and to help support a public-private funding collaborative to create a more affordable and accessible workforce system.

   - Minneapolis links desired workforce wage and job outcomes with financing tools provided by the city.

c. Create an entrepreneurial culture by coordinating and investing in a variety of small business and commercialization activities:

- Minneapolis drives small business development through a robust package of working capital and low-interest loan programs in specific commercial corridors and along neighborhood main streets.

- Denver invests in a national intermediary to leverage private investment in the city's commercial corridors and taps its Community Development Block Grant (CDBG) to capitalize a revolving loan fund that targets neighborhood-specific small business development.

d. Develop industry clusters through carefully targeted financial and regulatory incentives:

- Boston packages loan programs with specific terms and attributes that are important to target industry clusters.

- Seattle works with industry to identify policy reform to encourage development of priority clusters.

City-Regional Connections

The majority of benchmark cities partner closely with and invest directly in regional economic development entities to jointly pursue cluster strategies and recruit, attract, and retain target industries. Joint activity at the city-regional level has become more important and more widely practiced in a global economy that recognizes metro regions as the central unit of competition -- for labor, transportation infrastructure, energy, and water resources. Three of the more notable city-regional partnerships among the benchmark cities include:

- In Denver, the Metro Denver Economic Development Corporation coordinates cluster strategy, pools statewide incentives, and utilizes a well-recognized prospect tracking system to coordinate a regional approach to business recruitment and attraction. Its robust *Sell Metro Denver First* approach strongly discourages its 70 partner jurisdictions, including the City of Denver, from pursuing independent and fragmented advertising and recruiting outside the local market. The Metro Denver Chamber is the EDC's largest investor, collecting private sector investment that totals roughly $1 million annually. The City of Denver makes a nominal investment in the EDC each year. Four years ago the EDC launched a $12.5 million fundraising campaign to fund its operations.

- The Greater Austin Chamber of Commerce (GACC) works jointly with the City of Austin for marketing and recruitment through its

Opportunity Austin initiative. GACC has an annual budget of roughly $3 million to support and run *Opportunity Austin*. Half of that budget is spent on marketing, recruitment and retention services. Another $750,000 goes to K-12 and workforce development and the rest goes to regional competitiveness issues. The city contracts $250,000 on an annual basis to GACC for marketing and industry recruitment, as well makes a special investment to fund efforts for the clean energy industry.

- Enterprise Seattle coordinates closely with the City of Seattle for business recruitment, development, and expansion. Once a prospect is identified, the city will develop an assistance package to help location of that prospect in Seattle. Enterprise Seattle operates a total budget of $1.26 million. The city of Seattle invests $100,000 in regional efforts through Enterprise Seattle.

General Fund and Dedicated Funding Streams

Most benchmark cities of comparable size and economic base to Portland have either significant city general fund investments and/or a dedicated funding stream well above the level at which PDC is funded. Baseline budgets for comparable economic development activities range from a low of $4.2 million in Denver to a high of $33.6 million in Boston. Activities included in these budgets generally consist of business development, recruitment and retention, business finance activities, and industry sector initiatives. (See chart.)

City	Population	Budget
Austin	725,306	$6.6M
Boston	600,980	33.6M
Denver	576,842	4.2M
Minneapolis	362,513	16.9M
Seattle	565,809	6.2M
Portland*	550,396	4.2M*
*The $4.2 million represents the city of Portland's approved general fund allocation to PDC in 2008-2009 for economic development.		

The sources of funds for these city budgets for economic development include direct appropriations from city general funds and other dedicated streams of revenue as summarized below:

- Austin's Economic Growth and Redevelopment Services Office uses a dedicated funding stream of $6.6 million from its municipal utility, Austin Energy, to fund basic economic development operations and programs.

- Boston's Redevelopment Authority has a large economic development budget driven by successfully negotiated long-term lease agreements with developers and users, as well as equity positions in a few high-profile land holdings.

- The City of Denver makes a $4.2 million annual appropriation from its general fund to support core economic development operations through its Office of Economic Development.

- Minneapolis' core economic development activities, housed in its Community and Economic Development Department, are largely funded through the sale of a high profile property, self-generating lending fees (almost $4 million annually) and a large annual appropriation from the city's general fund.

- Seattle's $6.15 million Office of Economic Development is fully funded by a city general fund appropriation.

RECOMMENDATIONS TO KEEP PORTLAND COMPETITIVE AND BUILD A PROSPEROUS, SUSTAINABLE ECONOMY

Portland needs to move quickly and aggressively to support its new strategy – a smart strategy that can put the city firmly on a path to sustained prosperity. However, implementing this strategy requires new funding commitments and better tools and tools customized to the strategic goals.

Our recommendations are two-fold. First, we recommend the city substantially increase revenue and resources to support the directions outlined in the strategy. Second, we recommend the city establish a set of development policies that can extract economic benefit, partly from its niche in environmental sustainability, in ways that do not demand new funding.

A. Increase city investment and funding streams to scale up economic development activities in the short and long term.

The new economic development strategy positions the city to compete with other global cities, grow good paying jobs for city residents, and help existing and start-up companies identify new markets and products relevant to the changing economy. But this strategy to keep Portland at the leading edge of economic success will succeed only to the extent there are sufficient investments to support it.

PDC has already committed to using its traditional tools, for example, through innovative use of tax increment financing (TIF) to support capital projects in urban renewal areas. It has also sought additional support from state and federal programs, and efforts such as the city's Enterprise Zone and Ambassador Program. But, these revenue streams have limits on what and how they can be used and, in many cases, they are shrinking. Historically, tax increment financing has been the city's largest revenue source and major development tool. However, TIF can be used only for certain property improvements and only in certain areas of the city – Urban Renewal Areas (URAs). Projections demonstrate that TIF will shrink as the existing URAs sunset and the tax increment falls.

Some of the goals outlined in the city's strategy do not have consistent or adequate sources of funding. This includes the two critical strategies of growing

Portland's existing business base and attracting firms in target industries through a cluster strategy and enhancing the city's innovation assets through building P+OSI as a center of excellence enriching the city's entrepreneurial environment and making deeper connections to area universities. Implementing these goals will require investments not supported by traditional sources and amounts of revenue.

There are three ways the city can mobilize the additional resources it requires to invest in its new economic development strategy. First it must increase general fund appropriations for economic development, bringing these annual appropriations into line with benchmark cities. Second, it should establish new long-term funding streams that can be directly tied to economic development. Third, it should tap into a broad array of existing financing mechanisms, reallocating them to investment needs critical to the city's strategy.

1. Increase the city's general fund appropriation

The City of Portland allocated $4.2 million from its general fund in 2008-2009 for economic development. Our research shows that cities of comparable size and economic base to Portland work with general operating funds above that of PDC. As outlined in the chart on page 8 of this report, it appears PDC is operating at structural deficit of many million dollars.

Our recommendation is that the city place itself on equal footing with its peers and increase its general fund allocation to adequately meet a new set of economic development needs outlined in the strategy.

2. Adopt new long-term revenue streams for unrestricted economic development investment

In addition to this general fund appropriation, the city needs to generate a longer term, dedicated funding stream for economic development. As noted earlier, other cities of equal size tap into general utility funds, fees, and taxes as means of ongoing support that supplement a general fund allocation. There are a number of options the city can choose from –the choice should not be whether or not to secure such a dedicated source of revenue, but which one is most appropriate and feasible for the city.

a. Monetize an emissions cap or adopt a carbon tax

Portland should explore developing new funding mechanisms that integrate sustainability and development finance. It is a near certainty that state and/or national governments will implement major limitations on carbon emissions, most likely in the form of cap and trade legislation, or a carbon tax. Any of these mechanisms could be adapted to help serve as a financing tool for sustainable economic development.

The most widely discussed strategy is currently cap and trade, which would include the allocation of "cap", or permission to emit certain amounts of carbon. These permits would be valuable property rights, and the city should play a key role in their allocation. In particular, the city ought to get "credit" or cap allocations, for the carbon emission savings associated with its policies and investments. These cap allocations could be monetized by the city, with the proceeds being used for related sustainable development activities.

An alternative strategy under consideration is implementing a carbon tax or carbon disposal fee to help achieve its climate change goals. The idea behind a tax or fee is that no one should be allowed to use the common atmosphere as a dump for pollution without compensating the public for doing so. In the same way that Metro charges people for disposing of garbage in landfills, the region ought to charge polluters for disposing of carbon in the atmosphere. The province of British Columbia has already implemented a tax. The proceeds of a carbon tax or fee could be used to reduce other taxes (British Columbia has used revenues from such taxes to reduce wage taxes). In addition, a carbon tax could provide money to help businesses and households make investments to lower their energy consumption. Legislation introduced in the Oregon Legislature (HJR 34) proposes a constitutional amendment that would direct the establishment of a schedule of fees for the disposing of waste in the public air (or land or water). This would provide the basis for a carbon disposal fee. A carbon tax or fee could be implemented locally within the framework of cap and trade (and is specifically provided for in the Western Climate Initiative design recommendations).

Establishing a development finance tool tied to sustainability is a bold step forward. It mirrors, in many respects, the boldness of the change approved by Portland voters in 1958 when they authorized the formation of the Portland Development Commission and the establishment of tax increment financing (itself a very new and revolutionary concept). Tax increment financing was well-suited to dealing with the 1950s problem of urban blight. The new challenge of sustainability will require different tools.

b. Implement real estate linkage fees

Portland should consider use of "linkage" fees and payments to more efficiently extract revenue and other benefits from real estate projects. In other cities, these fees are set as part of a negotiated planning process for larger scale commercial real estate development projects in the city. The city and developer are brought together to work out the "public benefits" of large development projects, often a dollar per square foot fee over a certain baseline of build out. In Boston, for example, the redevelopment authority requires developers to pay $1.57 for each square foot of development in excess of 100,000 square feet into a trust dedicated to job training. Over the last few years the city has netted $3 million in job training programming funds. Portland could create a similar mechanism, with the proceeds of the fees going into a general fund dedicated to implementation of the economic development strategy.

c. Monetize city investment in parking

Portland makes a large amount of public real estate available for parking. With the exception of daytime metering in the city center, almost all use of public land for parking is provided free to all users, including city and non-residents. The city also allows adjacent land owners to convert public right of way to private use through curb cuts (which are then unavailable for use as parking). These kinds of policies encourage inefficient use of scarce parking, impede neighborhood commercial development and actually worsen traffic congestion.[3]

Several cities have experimented with parking pricing policies that use parking revenues to pay for neighborhood level improvements. Sharing the proceeds of parking revenues with adjacent neighborhoods offsets many of the perceived negative effects of charging for parking, and provides a revenue source for local improvements, including neighborhood level economic development. San Francisco, with funding from the federal government, is developing computerized technology for setting parking rates, collecting parking fees and providing real time parking availability information to drivers.

Charging users for the cost of providing and maintaining parking spaces in the public right of way is consistent with the city's long-term sustainability objectives. When they were first introduced in the 1920s, parking meters were a revolutionary idea. But they were quickly adopted by almost every city in the US as a way to encourage more efficient utilization of scarce public space. With today's technology—and a growing need for sustainability and efficiency—high tech parking could generate a steady stream of revenue for Portland's economic development agenda and meet the city's sustainability goals.

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[3] See Donald Shoup, *The High Cost of Free Parking*, Chicago: Planners Press, 2005.

d. Set up a real estate trust or annuity

The city can set up a trust or annuity-type finance mechanism to capture income from real estate purchases and long term lease agreements. The Boston Redevelopment Authority and the Minneapolis Community Planning and Economic Development Department both use this strategy to generate long term, predictable revenue for economic development. One of the benefits of placing the proceeds from real estate acquisition and lease agreements in an annuity-type mechanism is that it smoothes the ups and downs of real estate income generating projects, such as a one-time lump sum payment from a sale of property. The proceeds from the trust or annuity should be dedicated as a long-term, stable funding stream for general city economic development purposes.

3. Tap into existing funding streams to better support economic development

a. Bundle existing tools to advance R&D and entrepreneurship

The city should bundle a number of existing financing tools to develop the city's connections to research and development as well as build its entrepreneurial environment for innovation. In fact, the city already has a number of capital finance programs, such as a loan fund for working capital, equipment purchase, and real estate acquisition, that support and open up small business and commercialization opportunities in the city. PDC should look at existing programs like these, match them with other programs in the city, and make sure that there is sufficient capital as well as tools that meet the needs of start up and more mature companies that want to grow and stay in the city. Some options PDC should consider:

- Leverage city resources to extend private seed capital for early stage companies working on new technologies through P+OSI or one of the universities.

- Conduct a feasibility study to determine the replicability of Austin's capital finance program tailored specifically to support and grow businesses in the creative economy. This program leverages a low-interest guarantee on private financing for business in new media or design without putting city money upfront.

- Examine existing sources of federal and state grant moneys and identify ways to redirect them to match the city's new economic development goals. Portland's Section 108 program may be one such opportunity. In Boston, the redevelopment authority re-designated a portion of its Section 108 program to create a revolving loan fund targeting business and commercialization needs in older industrial districts.

- Re-examine and synch the city's microenterprise program funded through the Bureau of Housing and Community Development's Economic Opportunity Initiative. This initiative uses a portion of the federal Community Development Block Grant (CDBG) to fund microenterprise programs targeting low- and moderate-income entrepreneurs. The Bureau's program is being moved to PDC.

b. Create a commercial and industrial district-scale financing mechanism for energy efficiency projects

The city should create a special district-scale financing mechanism, such as the proposed Portland Clean Energy Investment Fund[4] or a Sustainability District Investment Account, to bring new resources to businesses and commercial property owners that want to innovate and save cost through implementation of large-scale, multi-facility energy efficiency projects. The city already has general authority to create and adapt its business improvement district ordinance to explore such possibilities. District use for such a purpose gives groups of businesses and property owners opportunities to borrow funds against a revenue mechanism, such as a (1) special assessment attached to property tax bills, (2) local improvement charge much like those that are assessed in a business improvement district, and/or (3) "on-bill" charges through one of the utilities. The borrowed funds go to support the upfront capital cost to implement larger-scale energy efficiency projects to benefit the district as well as the individual businesses and commercial property owners. In turn, the increased costs or surcharges to individual business and property owners are off-set by reduced energy consumption costs.

PDC should play a broker and mediating role with business and property owners in setting up and identifying energy efficiency opportunities in the districts. It should organize the districts, provide upfront feasibility assessments, conduct cost-benefit analyses, manage the project work, and assess impact. Of course, PDC should get paid for its role by capturing a portion of the assessment or surcharge on businesses and property owners. The district-scale fund overcomes two barriers cited by individual businesses that frequently prevent them from investing in such large-scale carbon reduction initiatives. First, it reduces the initial upfront cost typically associated with such an investment. It shares cost broadly and pays back any such costs through reduction in energy consumption. Second, it ameliorates the uncertainty and provides the management needed to assess the energy efficiency opportunity, research the cost-benefit ratio, and conduct oversight of the project.

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[4] See "Clean Energy Investment Fund & Building Retrofit Program," November 14, 2008 Concept Draft by tao strategies.

To move to implementation, PDC and city leaders need to take a number of steps, including:

- identify sources of patient capital from which the districts can borrow, either private equity interests or public mechanisms such as bonding or state/federal grants;

- understand the legal mechanisms and outline the statutory parameters from which a group of business and commercial property owners can operate and borrow as such a district; and

- complete further research that prepares a model of return on investment for the individual businesses and property owners, as well as documents the associated economic benefits that accrue to the city by setting in motion larger-scale energy efficiency projects (such as inducing the creation of green jobs and moving the city closer to its carbon reduction goals).

C. Fund efforts to grow Portland's own labor force and increase the talent pool

The city should leverage internal and external workforce resources to increase Portland's talent pool and support its prosperity agenda. There are two clear opportunities to pursue.

The first is to synch the workforce components of the city's Economic Opportunity Initiative with the priorities of the economic development strategy. As mentioned earlier in the report, the Economic Opportunity Initiative (OEI) is part of the Bureau of Housing and Community Development, but is being moved to PDC. The initiative has an annual budget of more than $4 million, the vast majority coming from the federally funded Community Development Block Grant (CDBG) program and a smaller portion from foundation grants and city general funds. Most funds go to operate workforce programs that train low and moderate-income Portland residents. At the very least, these programs should be aligned to train workers for the industry clusters targeted in the economic development strategy. Another such opportunity exists to coordinate the city's Solar Now training program for workers. Overall, this merging of the supply side and the demand side is a needed reorientation of city workforce funds and will help the city grow its own talent while also supporting employer workforce needs.

The second opportunity is to use the OEI funds to leverage greater alignment of investments across major public and private funders for workforce development. PDC should lead an effort to organize a modest pool of "unrestricted" funds that could be used to finance highly targeted "system-building" strategies, such as better alignment between workforce partners and city industry targets. The goal is to align new and existing workforce investments with PDC's economic development strategy, build synergy between public and philanthropic efforts, and increase outcomes for both city employers and workers. Key partners should be the Workforce Investment Board, the city's highly respected community college system and corporate and community philanthropy.

The city can look to the National Fund for Workforce Solutions for relevant models. The national fund is a $30 million to $50 effort to increase the number of successful local and regional workforce partnerships with similar goals. There are a number of cities and regions in the National Fund that Portland could emulate, including the efforts in Seattle and Boston. On average, these two cities bring together a three-year pool of public and private funding in the range of $3 to $5 million. They implement an array of workforce development efforts with employer partnerships in targeted sectors. In Seattle the effort is focused on increasing middle-wage jobs that offer progressive career ladders and pathways to advancement. As a means to strengthen the economy, it links low income working adults to one-year post-secondary credentials in the community college system. Boston's effort, called SkillWorks, brings together The Boston Foundation and the city's Office of Jobs and Community Services to build employer-workforce partnerships in health care. The funding collaborative has adeptly used success and learning to leverage additional state-level support for workforce development. Other efforts to look for elements of replicability include the Front Range Workforce Funding Collaborative in Denver, United Way-based collaboratives in Rhode Island and Philadelphia, and strong employer-led efforts in Los Angeles and Omaha. (See addendum to this report with relevant models).

B. Extract economic benefit without new funding through policy advocacy, procurement practice, setting benchmarks, branding, and public-private partnerships.

Portland has made a historic commitment to building a sustainable economy. The city understands that investments in solving environmental problems pose opportunities for new economic development by building competitive advantage for business and furthering its reputation as a place attractive to a talented workforce. This green ethos is also a reflection of the community's deep belief in the need to protect the environment.

A key part of the city's development efforts should be to continue to articulate a vision of continued improvement and innovation of new policies that promote local sustainability. This requires a comprehensive approach to economic development that integrates a wide variety of functions, including policy advocacy, procurement, benchmarking and branding.

1. Pursue policy that demonstrates the city's commitment to sustainability

Our research found a growing number of other cities recognize the sustainability opportunity - and are moving aggressively to position themselves to take advantage of the growth and attraction of green and clean technology industries as well as the talent dividends that come with embracing environmentally sustainable policy and green living. But the future success of these first mover advantages depends critically on the continued evolution of sustainability policy locally. City government and city leaders need to continue to advocate for state and federal policy and regulatory changes, of all kinds, from global (carbon cap and trade) to technical (net metering, on-site water re-use) as well as sustained attention to inclusive prosperity. Not only does this kind of advocacy keep Portland at the center of the policy discussion, and on the cutting edge of new developments in the field, it also enables city leaders to spot opportunities and shape them to benefit city business and residents. Three such opportunities are immediate:

a. Advocate for cap and trade to benefit Portland

As the state and the nation move ahead to craft meaningful efforts to cope with climate change, Portland should strongly advocate cap and trade policies that do not place it at a disadvantage because of its historic commitment to reduction of carbon. Cap and trade allocation plans, like those in the Western Climate Initiative, propose to allocate cap based on current levels of emissions. This means that places like Portland that have already taken steps to reduce their carbon emissions are penalized for doing so. On the other hand, jurisdictions with higher emissions get allocated more cap. Whether the cap and trade is implemented at the state, regional or national level, Portland should strongly advocate for allocating cap in a way that recognizes the environmental and economic significance of policies already put in place.

b. Capture cap and trade proceeds

Portland should also position itself to shape and capture potential cap and trade proceeds. If the first-in-the-nation Regional Greenhouse Gas Initiative (RGGI) is any indication, one of the clear benefits to cap and trade systems is the significant level of funds that the carbon auction generates for spending on local efforts. The cap and trade system captures these auction proceeds in a "bank" that can be used based on guidelines set by each state or the regional effort. For

Massachusetts alone, the proceeds from RGGI's first three auctions have totaled $43.5 million. These proceeds are being spent on grants to cities and towns to create "green communities," workforce development programs, special municipally-based energy efficiency projects, and to mitigate the higher costs of alternative energy for low income residents. Other states among the 10-state initiative have captured anywhere from a high of $87 million in proceeds in New York to a low of $2 million in proceeds in Vermont. Whatever the amount, PDC and the city should seek to shape, obtain and manage the proceeds on the city's behalf so that they align with the economic development strategy and allow the city to extract additional economic benefit from its sustainability efforts.

c. Gain state-level support for Portland's sustainability districts

Portland should advocate for adoption of state-level support for its sustainability districts through the Oregon Governor's Energy Efficiency Work Group. This working group outlined a number of "big idea" legislative concepts to improve energy efficiency in the built environment. One of those concepts that could be important to the mission of the city is included in draft legislation for House Bill 2181. It is now under consideration by Oregon's Legislative Assembly. The bill would authorize local governments to create local improvement districts so that residential property owners in those districts could obtain loans to pay for energy efficiency and renewable energy improvements on their properties. There is no apparent limitation on the size of a district nor are there apparent limits on the number of districts that can be created. PDC will likely be able to adopt such improvement districts, and even make some modifications (as we suggest earlier in our recommendations for a sustainability improvement fund and/or financing district) to include industrial and commercial areas so that a group of businesses could invest in and finance larger-scale carbon reduction initiatives, such as co-generation, through an assessment that is paid off through cost savings in energy consumption.

2. Create firm-level incentives through public procurement approaches

The city should use its public investment in buildings and infrastructure to create a leading edge market for existing city businesses, and outside businesses willing to locate in Portland. For example, the city could bundle its procurement and operations to bring to scale and make transparent its buying power in the green market. Chicago used its procurement authority to induce the location of a manufacturer of solar thermal collectors by agreeing to buy millions of dollars of its products and services. Albuquerque and Sacramento are creating markets for clean energy businesses by conducting energy audits, working toward all new construction as LEED certified, and retrofitting current buildings, such as affordable housing developments.

The city's buying power can be turned into incentive for firms to stay or locate in the city, even if the scale or markets may tend to fit smaller business. The PDC scan start by rolling up purchases across city departments and assign a total dollar value of product and services that can be marketed. It can also work with the mayor and city departments to identify future large-scale public investments, such as in energy efficiency retrofits, and add them to the total package. For example, there will be a huge flow of funds for energy retrofits available through the American Recovery and Reinvestment Act (ARRA). These investments should be gathered, bundled into a total investment value, and used intentionally to support the city's industry targets.

3. Match the city's drive to sustainability with clear benchmarks

The city should adopt the strategy's ambitious goal to be the "most sustainable economy in the US" and attach concrete targets that reinforce the city's brand and credibility in the sustainability market.

a. Benchmark net new companies in the green market

The city should create a concrete goal of attracting net new companies and nurturing a specific number of existing small and mid-sized businesses in the city that sell goods and services into the green market. In broad terms, these firms are engaged in the research and development, manufacture, distribution and deployment of products and services that support environmental sustainability and energy security. Tracked by PDC, these firms could be catalogued and grouped into four categories:

- Those whose products or services increase energy efficiency (including so-called "smart energy" that uses digital technology, electronics and intelligent systems to generate, distribute and consume electricity);

- Those that produce renewable energy or energy from alternatives to carbon-based fuels;

- Those whose products or services prevent or reduce environmental pollution; and

- Those providing mitigation or clean up of pollution.

b. Adopt an ambitious goal – 10,000 net new green jobs in 5 years

The city should adopt the strategy's goal of creating 10,000 new green jobs in its target sectors of clean technology, software, activewear and design, and advanced manufacturing. For a city and region of its size, this is a realistic goal. Other cities have established these goals, and Portland needs to also set such a goal as a signal to the market that it is serious in its efforts. Such a goal also keeps a common purpose among disparate efforts, in the city and region, and changing agendas across city departments. As part of its "grow your own" strategy, we also recommend that the city establish a concrete percentage of total jobs that come from recruiting and skilling up local residents to fit these jobs along a career and wage advancement pathway.

c. Set aggressive targets for green innovation

The city should also adopt a number of targets that support its goal of being first in green innovation, such as new and improved green products and services and green production and delivery methods through R&D expenditures, prototyping, and design. Targets to consider, based on data that are readily available to measure the city's innovation activity, include:[5]

- Number of Invention Disclosures and University Start Ups Related to Green Technologies at Oregon Research Universities;
- Number of Green-related Patent and Patent Citations;
- Total R&D Expenditures at Universities in Environmental Sciences;
- Total Venture Capital Investments in Green-related Business;
- Number of New Company Creations in Green-related Business;
- Number of Science and Engineering Graduate Degrees Conferred;

[5] See Oregon Innovation Index and data gathered from Association of University Technology Managers (AUTM) and data from Oregon Health & Science University, Oregon State University, University of Oregon and Portland State University; U.S. Patent and Trademark Office; National Science Foundation R&D Expenditures at Universities and Colleges tables by geographic division, state, and science and engineering field; PricewaterhouseCoopers, MoneyTree Report; Small Business Administration; U.S. Department of Energy, Energy Information Administration; Bureau of Economic Analysis.

- Total Energy Intensity (the amount of energy used to generate one dollar of GSP);
- Percent of Energy Consumed from Renewable Resources.

4. Launch a sustainability branding campaign

Closely tied to the policy goals and benchmarks mentioned above is how the city publicizes them and thus, continues to establish and re-establish its market brand as the most sustainable city in the US. But, first, in order to be effective, branding has to be credible and match the city's asserted leadership position in sustainability with actual performance; that is, the brand must be linked to the policy goals and build on and support the other. This is increasingly important as other cities try to position themselves with green brands: Denver's newly minted "Greener Denver" campaign, San Jose's aggressive marketing of its Green Vision, and the mayor of Albuquerque's commitment to support AlbuquerqueGreen's purchasing targets. Portland can stand out among this increasingly crowded space of "green" cities through commitment to real goals and actual performance that reinforce and stand proof of the brand.

5. Establish clear roles and responsibilities to pursue catalytic public-private opportunities in the city and region

A number of city and regional partners play an important role in leveraging private investment to expand economic development capacity. These organizations can also play an important role in advocating for policy reform. Their efforts often align with those of the city, and joint public-private efforts can create efficiencies and scale that one or the other cannot create on its own.

PDC's new strategy provides an opportunity to develop stronger public-private partnerships with a number of local and regional organizations. For example, PDC's strategy, particularly its emphasis on developing clusters, highlights the common goals of Greenlight Greater Portland and PDC. Where interest coincides around recruitment of new business, branding the city and region, and prospect management, there is opportunity to more clearly define the parameters and roles of a private-public partnership between Greenlight Greater Portland and PDC.

This may be particularly salient in the case of P+OSI. PDC, Oregon Sustainability Center, Portland State University, Oregon University System, and Greenlight Greater Portland have the opportunity to develop a collaborative plan, clear roles and responsibilities, and a unified front to solicit corporate participation with the goal of building a world class center of excellence in sustainability. Developing formal arrangements, such as a memorandum of understanding, that define roles, joint strategy and co-investment signals PDC's willingness to be a key partner and catalytic investor in projects of consequence to the city and region.