



# **Comparative Research on Funding Tools and Financing Mechanisms for Economic Development**

## **Findings Report**

**Submitted to:  
Portland Development Commission**

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## Introduction

The goal of the Portland Development Commission's Economic Development Strategy is to reorient its redevelopment activities to build the most sustainable economy in the U.S. by being first in green businesses, first in green jobs and first in green innovation. While ambitious, we applaud PDC for its foresight as well as its sound rationale for building its future economy in this direction. We concur that Portland truly has the foundation from which to build a recognizable, world class sustainable economy – an economy that leads to shared prosperity, is consistent with the city's sustainable way of life and ensures future growth through green development.

Our research task and this findings report focus on addressing key questions the Portland Development Commission wants answered as it crafts its economic development strategy:

- How are comparable cities organized around economic development? How are they funded and staffed?
- Which financing and funding tools do these cities use to support their broad economic development activities?
- Which financing and funding mechanisms do they apply to their sustainability strategies? Are there tools that can be applied to PDC's economic development strategy?
- Which tools and strategies should PDC employ to support its focus on sustainable job growth, inclusive prosperity and a sustainable way of life?

It is from this foundation that the consulting team began two months of research to identify economic development funding strategies, tools and financing mechanisms as well as innovations in sustainability strategies among 11 benchmark cities. In consultation with PDC, these 11 benchmark cities were identified and then organized into two groups. The first group of five cities is comparable in population and scale of their economies to Portland. These 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. With this group we focused our research on their sustainability strategies, examining the basic program and the tools and incentives associated with it.

This findings report is a way to share our research results with PDC, as well as begin to discuss the implications and possible areas of recommendation and further study. The report is organized into four parts:

1. The Dynamics of Environmental Sustainability and Regional Economic Development - an overview of the changing dynamics of the sustainability movement and economic development that frame the consulting team's research;
2. Developing New Tools for Sustainable Economic Development – three broad findings that if adopted will help keep Portland at the forefront of municipally-led sustainability policy and bolster its economic development strategy;
3. Key Findings from Comparative Research – a section that describes the funding structure and key funding and financing tools used by the benchmark cities; and

4. Conclusion – opportunities for PDC and the consulting team to jointly pursue as we continue our research and move to complete a final report by April 30, 2009.

The report also includes an appendix with profiles of each benchmark city.

# 1. The Dynamics of Environmental Sustainability and Regional Economic Development

Portland has made a historic commitment to building a sustainable economy both as a reflection of the community's deep belief in the need to protect the environment and because investments in solving environmental problems pose opportunities for new economic development.

This has become a central challenge facing the PDC – how to help Portland and the region accelerate the drive toward sustainability and extract economic advantage from it. However, before moving to a discussion of the strategies and tools appropriate to this challenge, it seems important first to offer a general framework for considering how Portland or any region gains economic advantage from a commitment to environmental sustainability.

We see three major elements in this framework. First, a city gains competitive advantage for its regional economy to the extent it helps local firms adjust to a global economy that values the environment and prices goods and services accordingly. If Portland can offer firms based here smarter, quicker and lower-cost adjustment to changing demand and new competitive requirements due to worldwide concerns about global warming and carbon emissions, then these firms will gain an advantage over firms in regions that don't support their firms in this way. Of course, this is a long-term advantage and many firms will see new environmental safeguards as an extra cost burden rather than a market advantage. This is new territory for PDC, spotting and exploiting opportunities to help Portland firms meet environmental objectives in ways that give them a competitive advantage while minimizing investment. PDC should try especially hard to help firms take advantage of opportunities for collective action, spreading costs among multiple investors and reducing the burden on individual firms.

The second way that Portland benefits from the sustainability agenda is by attracting talented people from around the world who share the values associated with sustainability. Nationally, and increasingly internationally, Portland is seen as a city with “sizzle” – one that is attractive to creative and well-educated young professionals. For growing numbers of this highly sought-after demographic segment, environmental sustainability is critical in determining where they want to live, work and raise a family. For a small metro economy like Portland that lacks a top-100 research university, attracting creative talent must continue to be a critical economic development strategy. Here again, the PDC can play a role in continuing to build a city that works well for people who care about the environment. Traditional strategies of supporting public transit, walkable neighborhoods, and high-density, mixed-use development will continue to pay off. Further, newer strategies to promote energy efficiency in housing and reduce pollution will strengthen Portland's appeal. Importantly, however, competition is growing for well-educated young professionals and Portland is not the only city hoping to leverage its reputation for a sustainable lifestyle to attract talent. That is why a “grow your own” strategy is also important.

The third way that Portland gains strategic advantage from its commitment to environmental sustainability lies in attracting and nurturing companies that sell goods and services into the green market. There are many ways to catalogue such “green economy” firms and no single, widely accepted national definition has yet emerged. In broad terms, these are firms engaged in

the research and development, manufacture, distribution, and deployment of products and services that support environmental sustainability and energy security. These firms could be grouped into four categories:

1. 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);
2. Those that produce renewable energy or energy from alternatives to carbon-based fuels;
3. Those whose products or services prevent or reduce environmental pollution; and
4. Those providing mitigation or clean up of pollution.

Portland’s push toward environmental sustainability creates a market opportunity for firms in these categories, mostly in energy efficiency but in the other categories as well. If the public sector, private consumers, homeowners, builders, commercial establishments and other industries are buying these goods and services more than in other regions, market opportunity and market visibility alone might create an advantage to a Portland location.

Perhaps more significant for Portland (a relatively small economic region) are the longer-term economic advantages that come from the clustering in Portland of companies with similar interests that will generate external economies of scale and spill over into innovation. Companies in a region that are similar, that buy and sell from each other or draw on a common labor pool can gain cost and technology advantage because of their relationships with each other. PDC can play an important role in supporting inter-firm connections. Especially at this early phase in the development of clusters of green economy firms, development organizations such as the PDC can promote development of the physical and intellectual infrastructure that deepens relationships in the clusters.

Firms selling into the green market will be just as interested in traditional tools of economic development as other firms, such as tax abatements or tax credits or incentive grants. But even more than firms in more mature industries, firms with ties to the green market are interested in access to markets, technology support and assurance of skilled workers, so those are important ingredients in attracting those firms.

## **2. Developing New Tools for Environmental Sustainability and Economic Development**

Our review of the benchmark cities shows that no city has pioneered any truly new funding or financial mechanisms to support the integrated strategy of environmental sustainability and economic development. What we found was that economic development agencies in other large cities use financing mechanisms and development tools that are strikingly similar to those available or used in Portland. However, while the nature of the tools themselves may not have changed, the purpose for which the tools are now used has: there is an increasing focus on using the tools to support sustainability as an economic driver. The bulk of this report details the comparative structure as well as the funding and financing tools used by the 11 benchmark cities for economic development. Many of the tools and mechanisms highlighted could be of interest to PDC as it implements its economic development strategy and builds on its existing advantages in sustainability.

In addition to this comparative research, we propose three opportunities for PDC to consider as “new” funding and financing opportunities. These opportunities may be adaptable to PDC’s current economic development strategy or they may be part of a longer-term effort to support environmental sustainability and create revenue streams in support of its overall economic development policy.

The first opportunity takes advantage of innovations in public finance related to new state and national policies to address global climate change. We highlight options for PDC to manage a municipal cap and trade system. The second opportunity creates industrial and commercial sustainability districts in the city, an adaptation of state legislation now under consideration that focuses on residential-based efficiency and renewable energy improvements. The third opportunity highlights the potential of building a city-philanthropic funding collaborative, a way to pool new investment and existing funding to increase workforce development outcomes that support the prosperity agenda in PDC’s economic development strategy. More on each of these opportunities follows.

### ***Municipally-Managed Cap and Trade***

The likely advent of new policies at the state and national level to address global warming creates the opportunity for fundamental innovations in public finance. It is likely that the nation could see the creation of new tools for sustainability that could be as important as the introduction of tax increment financing was for the economic development field 50 years ago.

For example, it seems likely that in the next few years the U.S. will adopt some limit on carbon emissions in the form of a carbon tax or carbon cap and trade system. The Western Climate Initiative, a collaboration of seven U.S. governors and four Canadian Premiers, is designing a regional cap and trade system.<sup>1</sup> The Obama administration’s budget anticipates national implementation of cap and trade. What’s important about these policies from a finance

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<sup>1</sup> Western Climate Initiative, “Design Recommendations for the WCI Regional Cap-and-Trade Program,” September 2008.

standpoint is that both involve the monetization of an environmental externality (carbon emissions).

However carbon policies are implemented, they will represent a major institutional change. Those communities that quickly adapt to the opportunities of this new environment will capture the most benefit.

The allocation of “cap” in cap and trade is effectively an allocation of valuable property rights. Procedures for the allocation of cap have not been worked out. The cap may be allocated to institutions and organizations or auctioned to specific bidders. To the extent that the cap is allocated, PDC could seek to obtain and manage on the city’s behalf property rights attributable to the city’s sustainability policies. For example, Portland residents drive about 20 percent less than residents of other large metropolitan areas in part because of city land use policies and transportation investments.

Some 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. (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.

If PDC were to manage Portland’s cap, it would give it a valuable economic asset that could be monetized. The proceeds could be reinvested to stimulate economic activity and generate additional cap credit.

Alternatively, Portland may want to consider 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. 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).

These proposals show the opportunities that may exist because the procedures for cap and trade (or carbon taxation) have not been worked out. But it is very much in Portland’s interest not to wait until the rules of the game (and the allocation process) are determined by others. Being a leader in implementing cap and trade or carbon pricing could help Portland build on its current leadership in sustainable industries.

## ***Industrial and Commercial Sustainability Districts***

The final report of the Oregon Governor's Energy Efficiency Work Group outlined a number of "big idea" legislative concepts to improve energy efficiency in the built environment.<sup>2</sup> One of those concepts that could be important to the mission of the PDC is included in draft legislation (House Bill 2181) now under consideration by Oregon's Legislative Assembly. This bill would authorize local governments to create local improvement districts so that 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.

The legislation would enable the State Department of Energy to lend money for such improvements to property owners in the district (directly or through the local government). These loans could then be repaid by an incremental tax assessment on the property. The assessment would stay with the property even if ownership were to change.

The bill authorizes local governments to require energy audits on the properties proposing loans in the district. The expectation is that the audit would accurately predict the annual savings in energy consumption from the improvements. Thus the property owner could select improvements with some assurance that lower energy costs (perhaps combined with saving from government and utility company rebates) would at least offset the property tax increment.

H. B. 2181 is limited to single family or multi-family residential dwellings of any size and to small commercial buildings that do not exceed 20,000 square feet.<sup>3</sup> The bill further limits the total amount of debt outstanding in any jurisdiction -- under this program total loans may not exceed one-half of one percent of the assessed value of all taxable real property within the jurisdiction. The exclusion from H. B. 2181 of larger commercial and industrial real property is based on the expectation that those property owners would receive significant incentives under other state energy grant and tax credit programs. In fact, the Work Group recommended that the Business Energy Tax Credit (BETC) for industrial process projects be increased from 35 to 50 percent.

If H.B 2181 passes in Oregon, the PDC should position itself to spur immediate implementation in Portland. Perhaps taking on lending authority on behalf of the city, the PDC might explore how to couple administration of this program with other financing services.

Still, the PDC's primary audience is larger commercial and industrial projects for which this new legislation is not available. We believe, however, that H. B. 2181 contains some of the framework for a new financing strategy that could be more central to the long-term mission of

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<sup>2</sup> Governor's Energy Efficiency Work Group, "Recommended Legislative Concepts: Energy Efficiency in the Built Environment," Sept. 2, 2008.

<sup>3</sup> H. B. 2181 is loosely modeled on programs recently launched in California in Riverside County and in Berkeley that focused on solar panel installation. In Berkeley, a nonprofit company has been formed to issue bonds, the proceeds of which are used to make loans to residential property owners. The loans in Berkeley are expected to average between \$20,000 and \$25,000. Those loans will be repaid, as in the proposed Oregon legislation, by an incremental assessment on the property tax assessed on the home. The program is seen as a windfall for solar installers who handle paperwork for the participating homeowners. Gro Solar, the nation's fourth-largest solar installer, has opened a West Coast headquarters in Berkeley.

PDC. Specifically, we recommend that PDC begin to explore the concept of large-scale, multi-facility energy efficiency projects in “industrial and commercial sustainability districts.” This concept might combine certain characteristics of business improvement districts with certain features of the urban development districts.

The core idea would be for the PDC to create special districts in industrial/commercial areas of Portland where larger property owners could aggregate their shared interests in large-scale energy efficiency, smart energy distribution, renewable/alternative energy generation, and pollution prevention/reduction. While individual businesses can take advantage of certain current state tax incentives and grant programs to help them “go green,” these businesses frequently lack the economic incentive on their own to invest in larger-scale carbon reduction initiatives. These initiatives might make more economic sense (and benefit the city and the region) if they are undertaken in cooperation with other nearby businesses.

This concept might be explored as a two-phased process. Phase one might most closely resemble the business improvement district approach, in which businesses in close proximity agree to a modest joint assessment, intended only to explore the potential for joint “sustainability” investments, providing cost-benefit analysis. As with business improvement districts, this new district could be formed by majority (or super-majority) action on the part of property owners to self-define their boundaries. Of course, one can imagine an external broker such as the PDC helping this process.

Once organized, the cooperation might be time-limited to cover a reasonable period of investigation and feasibility analysis. If that process yielded no significant opportunities, the district would be terminated and the assessment would expire. But if this planning uncovered opportunity that the property owners wanted to explore, they could move to a second phase

Phase two might more resemble what happens in an urban development district. Borrowed funds (perhaps combined with grants available from the state) would finance large-scale improvements in the district that benefit all the property owners there and benefit the larger region (the city) by reducing overall energy consumption, producing power from renewable/alternative sources and reducing or preventing pollution. The borrowed funds would be paid off through an assessment on the property owners, presumably based on their share of the benefits, or through some other value-capturing mechanism. The PDC should explore the feasibility of issuing revenue bonds to finance these sustainability investments using the assessments as the revenue stream.

Under the right circumstances and assuming the investments were soundly conceived, the property owners would be able to see a clear offset of their assessment in reduced costs of energy or pollution mitigation. To facilitate this, it might be useful to induce the cooperation of the utilities, using their billing processes to identify (and potentially even to capture) the energy cost savings. Under some circumstances, the energy utilities may be willing to invest in the projects themselves.

Using the property tax as a value-capture device should be explored. Property tax increment funding works when there is an incremental tax on all property owners that reflects the value added to their properties by the improvement. It would not work as well when, as in this case

perhaps, the property tax may not accurately reflect the value added to each property by the energy improvement or when the benefits are not proportionately shared by all.

As this concept is explored, there should be full consideration of how state and local government funding can subsidize these joint investments in the same way that current and proposed tax credits and direct grants subsidize individual investments. Large-scale energy efficiency project will be essential if Portland is to meet its expectations for reducing emissions and continuing its national leadership. It will not be feasible to rely on narrow, company-by-company financing models to achieve these ambitious targets.

### ***Public-Private Investment Collaborative for Workforce Development***

PDC may also consider advancing a public-private investment collaborative or partnership that is focused on increasing funding opportunities in workforce development. This would support the prosperity components of PDC's economic development strategy and contribute to more strategic investments in the local workforce development system that improves the quality and alignment of education and training programs in the region. It would also build off and serve to coordinate existing efforts in the city and region to train Portland residents for good paying jobs in identified industries.<sup>4</sup>

Specifically, it is proposed that PDC take the lead in the establishment of a formal collaborative or partnership of public and private agencies in the region that invest in workforce education and development for working adults without postsecondary credentials. The goal would be to improve labor market outcomes of education and training for these individuals, including:

- Stronger emphasis on education and training with a focus on middle-wage jobs that offer progressive career ladders and pathways to advancement;
- A demand-driven workforce system that adopts a dual-customer approach to serve both job-seekers and employers;
- Seamless system alignment that offers a continuum of services that can be easily accessed through multiple entries and flexible pathways;
- Efficient allocation of resources with the capacity to make quick strategic changes based on labor market demands, projections and analyses; and
- Performance-driven investments with measurable outcomes, results and clear accountability.

In the short to medium term, the collaborative would work to promote the alignment of investments being made by the major public and private funders of workforce development, such as the Workforce Investment Board and corporate and community foundations. This approach would keep resource allocation decision-making in the hands of independent organizations but it could promote the alignment of these investments with PDC's economic development strategy, build synergy between the public system and employer and worker needs, and increase results. The collaborative might also organize a modest pool of "unrestricted" funds that could be used to finance highly targeted "system-building" investments in opportunities or activities that might not fit the grant-making strategy or timetable of individual investors in the collaborative.

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<sup>4</sup> Such as the Bureau of Housing and Community Development's Economic Opportunity Initiative and the Northern Willamette Valley Transformation Workforce Innovation in Regional Economic Development (WIRED) initiative.

In the longer term, it would promote more employer investment in credentialed education for their low-skilled employees and develop a policy for more effective government sector workforce education policies.

Notwithstanding these general recommendations, the remainder of the report highlights the findings from our comparative research. PDC will be able use these findings to compare general structure and economic development revenue as well as learn from the funding tools and financing mechanisms used by the benchmark cities.

### 3. Key Findings from Comparative Research

The findings in this section are organized into two sections. The first section highlights the general structure and budget for economic development in the five benchmark cities of Austin, Boston, Denver, Minneapolis, and Seattle. More details on the structure and budgets of these cities are provided in the appendix to this report.

The second section is longer and provides more detail on the principal funding and financing tools used for economic development by the aforementioned five benchmark cities as well as the six cities with a specific focus on sustainability strategy. The cities in the second group are Albuquerque, Chicago, Sacramento, San Jose, and Toronto and Vancouver.

#### ***Economic Development Structure and Budgets***

It is difficult to separate out and compare the budgets among the five benchmark cities of Austin, Boston, Denver, Minneapolis and Seattle. While primary economic development functions tend to be in one organization, it varies whether or not housing, planning, and workforce development departments are also included as part of the economic development entity. As a result, budgets are difficult to compare from city to city. The figures below represent the best gauge of primary economic development activities and staff size. They generally include business development, recruitment and retention, business finance activities, and industry sector initiatives.

<u>City</u>	<u>Population</u>	<u>Budget</u>	<u>Main Source</u>	<u>FTEs</u>
Austin	725,306	\$6.6 million	Dedicated utility fund	45
Boston	600,980	\$33.6 million	Real estate leases, linkage fees, city general fund	48
Denver	576,842	\$4.2 million	City general fund	40
Minneapolis	362,513	\$16.9 million	Real estate, city general fund, lending fees	29
Seattle	565,809	\$6.15 million	City general fund	25
* Population figures are from the US Census Bureau American Community Survey 3-year rolling estimate 2005-2007. All budget figures are approximations for 2008 expenditures based on core economic development functions. More detail on each city budget is in the City Profiles section of the appendix.				

Most cities are funded through a variety of traditional sources listed above. Some of the cities, like Austin and Boston, implement funding models that provide stable streams of revenue to support economic development activities.

#### *Austin*

Austin uses a dedicated funding stream from its municipal utility, Austin Energy, to fund operations and programs of the Economic Growth and Redevelopment Services Office, which is Austin’s main agency for economic development. This gives the EGRS office a secure, stable source of revenue that is not tied to the city’s general operating budget and is therefore shielded

from curbs in budget. Unique to Austin is that the EGRS office supports a cultural division as part of its economic development activities. This division supports arts and cultural industries city-wide.

### *Boston*

The Boston Redevelopment Authority has a large economic development budget driven by successful management and long-term lease agreements negotiated as part of real estate deals. These revenue streams give the BRA significant amounts of money to support economic development. Very little of the BRA budget (1 to 5 percent, depending on the year) comes from the city's general operating fund. These outside revenue streams shield the agency from short-term "money grabs" that arise when city budgets are stretched or when political issues crop up. The total economic development portion of the BRA budget is \$33 million. Almost 60 percent of the BRA's total revenue comes from long-term lease agreements with developers and users, as well as equity positions in a few high-profile land holdings. In turn, this revenue stream supports capital investment in new catalytic redevelopment projects across the city and is the source of one-third of the revenue that supports the activities of its Economic Development Division.

### *Denver*

The City of Denver makes a general appropriation to fund its core economic development operations from its Office of Economic Development. This appropriation is roughly \$4.2 million and covers activities of the Office of the Director (strategic planning, administration and research) and the Divisions of Business Development (recruitment, retention, site selection) and Small Business Opportunity (minority contracting). The Office of Economic Development also manages the city's \$32.6 million Division of Workforce Development (the city's one-stop operator funded through federal WIA and unemployment dollars) and \$32.7 million Division of Housing and Community Development.

### *Minneapolis*

The city's economic development activities are housed within the Community and Economic Development Department. It has a business development division that is largely funded through the sale of a hotel (a diminishing source of revenue) and its business finance activities are fully self-funded through lending fees. These fees represent \$4 million in revenue for core economic development activities. City general fund dollars support \$3 million of the city's total economic development budget. CPED also includes a division for housing and planning.

### *Seattle*

The Office of Economic Development includes real estate development, business, workforce development, and community development. Seattle does not allow TIF. Revenue sources such as property tax are pooled into city general funds which are then allocated to OED and other departments such as the Department of Planning and Development. The Department of Planning and Development is also involved in economic development and sustainable activities. All fees and similar revenue must be spent only to recover costs. Levy and bond revenue is project-based.

## ***Funding and Financing Tools***

This section identifies the principal funding and financing tools used for economic development and sustainability strategy by the 11 benchmark cities. The findings are organized under the strategic categories identified in the Portland Development Commission's 50% Draft of its economic development strategy. These categories are:

- sustainable job growth (cluster strategies, commercialization of R&D, sustainable business practices);
- inclusive prosperity (workforce development to link residents to green jobs, entrepreneurial development and finance, commercial corridor strategies); and
- sustainable way of life (innovation in green development and technology, central city strategies, progressive public policy).

As the 50% Draft strategy describes, the line blurs between these areas. The findings are separated as best as possible according to each area, though a number of examples in one area easily support another.

### ***Sustainable Job Growth***

- 1) Cluster strategies to grow the existing business base and attract new firms
- 2) Commercialization of R&D from local universities
- 3) Sustainable business practices within the existing business base

A cluster approach to industry and job growth is common though not unanimous among the cities the consulting team studied. The cities vary in their ability to provide financial incentives for cluster development. Some, such as Seattle, provide very few city-based incentives and must rely more on state incentives for targeted clusters. Austin, on the other hand, has a very aggressive city-based incentive for its targeted emerging technology industry clusters. Numerous state-based incentives exist to support cluster growth, sustainable industries and the creative sector. This section focuses on city-based incentives and strategies.

Most of the cities also contract with private business associations or nonprofit entities for business recruitment activities associated with cluster strategy, including marketing and promoting local, state and federal incentives; site location; and demographic and economic data. They use traditional tools to finance a cluster approach or re-design them to target clusters that may be part of their sustainability agenda.

While many universities are actively engaged in research on sustainability issues such as green design and renewable energy technologies, only a few examples exist of public/private partnerships that commercialize research and development. Most efforts are in initial development and require significant negotiation with the university. Minneapolis and St. Paul will be working with the University of Minnesota to develop a park that will include research institutes likely to focus on green technologies and other sustainability issues. The University of California, Davis might engage more with the Sacramento Clean Tech Zone. San Jose has a number of promising partnerships that may lead to commercialization of product, but none have gotten to scale or been successes yet. There seem to be no examples on the scale and ambition of the Portland + Oregon Sustainability Institute (POSI).

As part of a sustainable way of life, sustainable job growth transcends all levels of business activity, including encouraging sustainable practices among businesses through certification as well as utility rebates or discounts for purchasing green power.

## **1) Cluster strategies to grow the existing business base and attract new firms**

### *Austin*

The Economic Growth and Redevelopment Services Office invests in and manages the Emerging Technologies Program, a cluster-based strategy focused on the attraction and retention of five industry clusters. One of these five industry clusters is clean energy. The others are digital media, wireless and information technology, nanotechnology, biotechnology and life sciences. The city structures much of its incentive policy around seeding, growing and attracting these industries.

The key incentive tool for attraction used by the City of Austin is the Chapter 308 Economic Development Incentive Grant. The grant is fundamentally a tax abatement targeted to companies in one of the five targeted industries. The city gives a “grant” to eligible companies using a complex scoring system that rates the quantity and quality of jobs, the overall economic impact of the company in the cluster, and whether the company locates in a “desired development zone.” The city in turn calculates how much it will “grant” the company based on its score and the amount of taxes it will pay the city. The incentive grant is fairly selective. Only six companies have received them but the amount granted can be quite substantial – from \$3 million to \$47 million over the life of the grant. The city has an annual obligation of \$4.7 million against the six agreements.

### *Boston*

Boston has a number of cluster strategies with financing mechanisms tied to support their growth. The first is the city’s life sciences initiative, called LifeTech. Among the financing tools used to grow the industry are LifeTech’s Innovation Fund and the Build-Out Fund. The Innovation Fund targets capital needs among start-up companies in the life science and biotechnology industries. The Build-Out Fund targets financing for more mature companies. Both funds provide low-interest, asset-based loans that have a two-year term with a 10-year amortization. Businesses can qualify for loans up to \$250,000 per company that can be used for the purchase of capital equipment, real estate-related costs such as security deposits and build-out, and in some cases the refinancing of debt.

Boston also has a Green Tech cluster program which targets companies that provide products or services associated with green building, energy efficiency, renewable energy and alternative transit. While Green Tech doesn’t have any specific incentive monies to attract green tech industries, it has “reprogrammed” a few tools it can use to support and grow businesses in the industry. The first is a \$500,000 loan pool available to finance business expansion or lease/purchase space for greater green efficiency. The second is space that it can lease at below-market rates to green tech businesses. This space is located at the city-owned Boston Marine Industrial Park. Green tech companies eligible for the favorable rates must have some industrial component to their operations.

### *Sacramento*

The City of Sacramento participates in and funds the Partnership for Prosperity and the Green Capital Alliance. The Partnership for Prosperity is a regional economic development coalition focused on a number of cluster strategies, among them the development of the clean technology sector. The focus on clean technology became so great that the clean tech team spun off to form the Green Capital Alliance. It provides retention, attraction and growth services to the clean technology sector in a six-county region. The focus on clean technology has generated significant interest from venture capital companies.

### *San Jose*

San Jose chiefly applies its economic and community development tools to sustainability and the development of clean technology industries. TIF financing has been used to provide incentives for solar manufacturing companies redeveloping old fabrication sites and buildings in the city.

### *Seattle*

Seattle cannot directly invest in private business and therefore has directed assistance to creating areas attractive to certain clusters. Biotechnology is an example. The city worked with industry leaders to create a home for biotech companies in one distinct district of the city, hoping to create an environment where the cluster can thrive. Rather than investing directly, the city used its leverage to improve regulation, access to housing and infrastructure for the industry. For example, the city facilitated zoning changes that allowed more labs to locate in the area. It helped property owners create a local area improvement district to help fund a street car that connects the area to the downtown. It also leveraged private investment for infrastructure improvements.

Seattle also invests in workforce development as a way to support cluster development in the city. More on Seattle's workforce development efforts can be found on page 18-19.

## **2) Commercialization of R&D from local universities**

### *Austin*

Austin's Economic Growth and Redevelopment Services Office makes an annual investment in the Austin Technology Incubator, a program run by the University of Texas that supports early-stage companies in the clean energy, bioscience, nanotechnology and wireless industries. Roughly \$220,000 of EGRS' annual investment in ATI goes to clean energy activities - \$100,000 to staff a clean energy incubator and \$120,000 to sponsor ATI's annual Clean Energy Venture Summit. The summit has two parts. The first is a forum that connects early stage clean energy companies to venture capital. The second is a national gathering more generally focused on green energy issues. More on ATI can be found on page 24.

### *Minneapolis*

Minneapolis, in collaboration with St. Paul, is considering developing a "green zone" that will likely leverage the University of Minnesota's significant investments in renewable energy and sustainability. The university's Institute for Renewable Energy and the Environment, the Center for Sustainable Design, and the Center for Transportation Studies all provide a knowledge center and talent pool for city economic development efforts. The Institute for Renewable Energy also provides large venture capital, seed and matching grants to spur development of high-risk

renewable energy projects. The green zone would include start-up businesses and R&D from the university and offer green manufacturers redeveloped brownfield sites, access to green power, transportation, and a well developed supply chain to grow the industry.

#### *Sacramento*

The City of Sacramento's Clean Tech Zone is a zone designated by the city for new solar tech businesses. It is part of the city's foreign trade and Enterprise Zone. There are some considerations to better leverage the University of California Davis' existing research and development capabilities as well as its incubator system as part of the zone. More on Sacramento's Clean Tech Zone can be found on page 23.

### **3) Sustainable business practices within the existing business base**

#### *Sacramento*

The city is piloting a bid preference system for RFPs which include verifiable criteria such as purchasing a certain percent of greenpower from the Sacramento Municipal Utility District or owning or leasing a LEED-certified building. The Business Environmental Resource Center is a Sacramento regional entity that operates a sustainable business certification program to improve green operations for businesses and then promote them. The specifications are a softer version of Green Building Council criteria.

#### *Seattle*

The Seattle Climate Partnership was initiated as a collaboration of 12 large businesses such as REI and Starbucks along with other public, for profit and nonprofit private entities. Over 100 businesses now participate. Businesses joining the partnership sign a voluntary agreement to reduce greenhouse gases. They receive access to a carbon footprint calculator which establishes a baseline carbon footprint from which they can quantitatively monitor reductions in greenhouse gas emissions. Along with recognition, businesses also receive technical assistance as well as access to utility incentives for purchasing green power. It also helps implement energy efficiencies and identifies opportunities for joint purchasing agreements.

#### *Albuquerque*

The Albuquerque Economic Development Department is responsible for increasing the number of green businesses by 5 percent each year. Albuquerque defines green business as manufacturers of green products, green retailers, recyclers, green builders, self-identified businesses, green consultants and renewable energy firms.

#### *Boston*

As part of the Green Tech Initiative, the Boston Redevelopment Authority developed and manages the Sustainable Business Leader Program. Businesses submit an application and are invited to participate. Currently the program helps 27 small to mid-sized local businesses become more sustainable while reducing their energy, waste and water expenses. Participants receive technical assistance for one year. A program coordinator conducts a sustainability assessment in these six areas:

- Energy efficiency
- Water conservation

- Recycling/waste reduction
- Transportation
- Pollution prevention
- Sustainability management

Based on recommendations from the assessment, each business creates a Sustainability Action Plan. Upon successful completion of the action plan, which may take up to one year, a business can be designated "Sustainable Business Leader." Currently participating businesses pay a fee to cover the costs of the coordinator but the BRA is applying for a federal grant to supplement the cost.

### *Toronto*

The City of Toronto is undertaking a major sustainability initiative to retrofit, improve energy efficiency and reduce pollution in 1,000 residential towers built since the 1950s. The mayor's "Tower Renewal" program, as it is called, has two objectives: first, to help stimulate local business activity around new technologies for overcladding and energy retrofits that will create jobs and may represent exportable expertise, and second, to lower energy costs for Toronto households, which will then enable them to spend more of their income in the local economy, creating further employment opportunities.

### ***Inclusive Prosperity***

- 1) Workforce development to link residents to green jobs
- 2) Entrepreneurial development and finance
- 3) Commercial corridor strategies

Workforce development is a key component among most of the economic development agencies in the benchmark cities. Boston and Seattle, for example, have developed funding collaboratives that are public/private investment entities including philanthropy efforts that work to leverage workforce system change through a significant added pool of funding. The level of investment and links to "green job" workforce development effort varies among the benchmark cities.

All benchmark cities have a number of small business development finance and technical assistance programs, although none of them seem to have any unique tools or funding opportunities for entrepreneurial development and finances that focus on sustainability.

Most though not all of the cities pursue some type of commercial corridor strategy. Boston and Minneapolis implement Main Street and Great Street programs, much like Portland's programs. And similar to Portland's proposed Green Main Street, Sacramento is proposing a Complete Streets program -- sustainable neighborhoods with amenities such as grocery shopping, retail and green space in which every residence is within a half-mile of public transportation.

### **1) Workforce Development**

#### *Seattle*

The City Office of Economic Development invests \$2.8 million of its general funds in the Seattle Jobs Initiative, a large share of the city's total investment in workforce development. SJI is an intermediary nonprofit that contracts with nonprofit community-based organizations and

community colleges to provide customized support services and training to low-income individuals in high-growth industries such as high tech, health care and manufacturing. The initiative engages employers in curriculum development and job placement.

Recently OED invested \$150,000 in the South Seattle Community College to develop curriculum and pathways that go from pre-apprenticeship to an energy auditor certificate. The city has also invested in the King County Workforce Funders' Collaborative,<sup>5</sup> an effort to pool corporate and community foundation resources with city and county investment to:

- increase postsecondary attainment (one year with a credential) for low-income working adults;
- increase advancement into family-supporting jobs that support long-term career plans among low-income working adults; and
- increase employer access to a qualified workforce.

There are 10 community colleges involved in the effort and plans are to target the green energy and health care sectors. A major goal of the initiative is to use private investment to create systems change among workforce development and post-secondary institutions to better serve workers (increased credentials and thus prosperity) and industry (a better qualified and productive workforce).

### *Minneapolis*

Aggregating federal and state as well as some city funding, \$10 million is allocated for employment and training through the City of Minneapolis. The city uses a living wage ordinance and ties it to business development tools. Significant development projects also include a jobs agreement with quotas for the construction portion of a project.

The state is working on marketing a supply chain for nearby wind farms. With a solar cities grant pending, a solar installer apprenticeship is available with a local community college, the International Brotherhood of Electrical Workers, and the National Electrical Contractors Association. Youth projects with the workforce division have focused on green jobs such as shoreline restoration, river sustainability, and educational/outreach programs. The Employment and Training program is looking to expand training placements in other businesses and nonprofit organizations with a green focus.

### *Boston*

The BRA successfully uses “linkage” fees and payments to get revenue and other benefits from real estate projects. A portion of the linkage fee (\$1.57 per square foot for new development over 100,000 square feet) goes to a Neighborhood Jobs Trust that is reinvested in city job-training efforts

The city has three “green jobs” initiatives. The first is part of a \$350,000 grant administered by the BRA’s Jobs and Community Services that trains new housekeeping and other cleaning occupations for the hospitality industry’s green-certified hotels in the city. The second is a multi-sector initiative called SkillWorks, supported in part by the City of Boston and the mayor’s office. SkillWorks is developing a long-term green jobs strategy. At this stage it is reviewing

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<sup>5</sup> Some call it under its previous name, 2nd Chance WA.

employer needs for green jobs, identifying training capacity and developing a local plan. The third initiative is a city partnership with National Grid to train its incumbent plumbers to install solar hot water panels. This program was funded by an EPA solar cities grant.

#### *Austin*

The city invests \$280,000 each year to support a nonprofit-operated training program in basic computer literacy. This is part of the city's decade-long effort to prepare its employed and unemployed workforce for new technology jobs. Funding for the program comes from a special "sustainability fund" generated from the city's Solid Waste Services, Drainage Utility and the Austin Utility.

## **2) Entrepreneurial development and finance**

#### *Denver*

The City of Denver is pursuing innovative gap financing tools to advance commercial development along commercial corridors and in neighborhoods. First, the city has a unique partnership with Seedco Financial, a national community development financial institution. Through Seedco the city invested \$437,000 for start-up costs (from a New Market Tax Credits grant) and has since committed \$3 million per year from its general fund (a total \$15 million commitment over five years) to support and finance catalytic real estate and commercial projects in the city. Seedco delivers technical assistance and low-interest financing through construction loans and permanent financing to small business, nonprofits and developers in five economically distressed districts. Seedco has used the city's initial investment to leverage \$17 million in capital from its own sources (private capital from banks, pension funds and other national investors) since it opened in June 2007. Roughly 27 percent of Seedco Financial's annual budget in Denver comes from the Office of Economic Development contract.

Second, the city has capitalized \$4 million in a revolving loan fund (RLF) over the years from CDBG funds for small business development, focused on distressed neighborhoods/commercial corridors. The RLF's main focus is on small businesses lending and neighborhood development. While financing can be used for working capital, the fund is limited in its catalytic impact because of restrictions on lending (only up to \$350,000 without special city council approval and 25 percent of total project cost).

Third, the city's Office of Minority Procurement is pursuing a gap financing fund for working capital and equipment purchases to help jumpstart "under-capacity" minority contracting firms once they secure city contracts. The fund would be created from CDBG funds and financial commitments from banks and other private sources like Seedco (which said it will invest \$400,000). In addition to this investment, Seedco has said it will create a gap financing fund for minority firms getting significant contracts from private developers.

#### *Boston*

The Boston Local Development Corporation is a private 501(c)(3) nonprofit corporation administered by the Boston Redevelopment Authority. The BLDC provides loans between \$15,000 and \$250,000 for existing businesses in or new businesses locating to Boston, with an

emphasis on the Enhanced Enterprise Community and Boston Main Streets neighborhoods. These loans can be used when buying a new business property, purchasing equipment and machinery, constructing an addition to an existing plant, making leasehold improvements or providing working capital to grow the business. The BLDC actively pursues loan participations with local banks and takes a subordinated debt position. The city's Back Streets Back-up Loan Program, part of BLDC, provides financing up to \$250,000 to eligible Back Streets businesses. These include companies in identified industrial and manufacturing sectors along targeted corridors of the city. The financing has flexible terms and conditions based on need. The city has appropriated \$1 million in funding for the loan program. Between 1998 and 2002, the BLDC approved over \$4 million in loans to Boston businesses.

An interesting "reprogram" is with the city's Empowerment Zone. The city's Green Tech initiative urged the EZ to re-designate \$2.5 million of its section 108 revolving loan fund program to finance green purposes in the EZ district. The exact range of "green" purposes for the loan dollars is broad right now but will be further defined in the future. See also Boston's entrepreneurial development programs targeting green tech business and the life sciences on page 15, such as the low-cost industrial space for green business and start-up funds for business in the life sciences.

### *Minneapolis*

Two-Percent Loans provide financing to small Minneapolis businesses (retail, service or light manufacturing) to purchase equipment and/or to make building improvements. A private lender provides half the loan at market rate and the city provides the rest, up to \$50,000 at 2 percent interest. The loan term is set by the private lender and can be for up to 10 years. Bank fees vary, but the city charges a 1 percent origination fee with a minimum of \$150 due at closing.

Minneapolis provides an emerging entrepreneur capital acquisition loan for businesses two years old or newer. The city may lend up to \$400,000 or 40 percent of the appraised value. A bank finances 50 percent (or greater) and holds a first mortgage. Equity of 10 percent is required. Underwriting standards are slightly more lenient than conventional commercial loans.

The Working Capital Guarantee Program is designed to help small businesses secure financing through private banking institutions. A private lender funds the loan, and the City of Minneapolis guarantees a portion of the financing up to 80 percent of the first \$50,000 and up to 50 percent of the remainder. Although there is no limit to the amount of financing provided by the bank, the city's maximum guarantee is \$75,000.

### *Austin*

The City of Austin's Economic Growth and Redevelopment Services Office established a loan guarantee to encourage and extend the credit of private lenders to individuals, companies, and nonprofits involved in music, film, art and technology in the city, called the Creative Industries Loan Guarantee Program. The fund guarantees to the private lender an extra portion of financing that can be lent. The guarantee cannot exceed 50 percent of the private loan or \$75,000, whichever is less. The minimum loan guarantee amount for any purpose under the program is \$10,000. The City of Austin takes subordinate position on the loan to that of the private lender. The City of Austin signs a letter of commitment with the lending institution for the guarantee and

gives the lending institution the right to recover the guarantee fund in the event of default. Loans can be used for working capital, equipment and improvements to existing buildings or leasehold improvements. There is a small job creation requirement: either one permanent, full-time job created or two permanent full-time jobs retained for every \$15,000.

#### *Seattle*

Seattle provides a small business advocate to help work through issues, permits and funding on a one-to-one basis. The city also facilitated capitalization of a small business loan fund through a partnership with a nonprofit entity and funds from the Seattle Foundation. The fund holds \$8 million.

### **3) Commercial corridor strategies**

#### *Denver*

The city's Office of Economic Development launched the Denver Neighborhood Marketplace Initiative in 2008 as a way to focus multiple programs and resources on five pilot business/neighborhood districts. Each district comes up with a development plan that outlines which resources, ranging from technical assistance to small business lending and streetscape improvements, are to be deployed. OED recently realigned staff (one staff person is dedicated to each pilot site) to implement the citywide initiative. Changes include deploying staff geographically to cover the 11 city council districts to work in partnership with neighborhoods and businesses throughout the city. The city has created a partnership with Social Compact, a Washington, D.C. nonprofit organization, to develop a neighborhood market analysis plan for each district. The marketing plan will be used to attract investment and capture underserved market potential. The initiative is new and, at this point, OED has not identified additional funding or tools to be dedicated to the districts.

The city is close to creating its own Community Improvement District ordinance that would largely replace existing Business Improvement Districts authorized by state statute. Some of the major differences between the two are that BIDs are an autonomous subdivision of the state (authorized by state statute), while CIDs are an extension of the city (established by city charter). BIDs tax commercial property. CIDs can tax commercial and/or residential property. CIDs would be created by Denver Public Works or by petitions signed by businesses and residents in a neighborhood. Right now existing BIDs use a 35 percent threshold of approval among real estate owners to establish a district. The CID would likely move that up to a 50 percent threshold. Also in discussion is Denver Public Works request to get an annual administration fee from a CID of 5 percent of total assessments collected. Another proposal has the administration fee at 1 percent.

#### *Boston*

Efficient Newmarket is an industrial green corridor initiative part of Green Tech, located in an older warehousing, food distribution, and light industrial area of Boston. The effort is a demonstration project to model an integrated eco-industrial zone out of an existing urban industrial district. Efficient Newmarket provides green audits and technical assistance workshops for sustainability issues, taps into the city Empowerment Zone's \$2.5 million revolving loan fund for energy efficiency retrofits and renewable energy installations, and will coordinate transportation, alternative transit and infrastructure improvements that fit the "green" agenda.

The Boston Redevelopment Authority has just applied for a federal EPA grant to hire a dedicated person to staff the initiative (it has become too staff-intensive for the Green Tech coordinator to handle by himself).

Boston's Back Streets initiative focuses on preserving industrial corridors in Boston so that small and mid-sized industrial companies will not be moved out of the city. The initiative brings together workforce training, networking, site selection and other assistance to new businesses. It also focuses on upgrading infrastructure in the districts. As mentioned above, \$1 million in funding has been appropriated for a loan program for Back Streets businesses. Related to Back Streets is the city's Main Streets program. It offers financial and referral services, business façade improvement, small service loans, and networking events to each of the 19 designated Main Street districts.

### *Sacramento*

The city's sustainable master plan includes a goal that all residences will be located within one-half mile of at least six amenities. The plan also calls for the creation of "Complete Streets" that are safe for every mode of transportation. Other goals include public transportation within one-quarter mile of all residences; LEED certification for 80 percent of new construction; and an annual expansion of the bike and pedestrian system by 5 percent. An implementation plan is approved annually. Other incentives and policy tools are being developed to implement the Complete Streets program. One may be a transportation development impact-fee program to support development of multiple modes of transportation. Another tool may be a zoning code amendment to support urban infill in revitalization corridors.

The city's Clean Tech Zone is another part of its sustainability efforts. A \$200,000 EPA solar cities grant has been invested into developing the Clean Tech Zone, which is also part of an Enterprise Zone and foreign trade zone. The city has redefined and is marketing all applicable zone credits to businesses locating there around clean tech. It is also doing the same for other incentives such as city-issued bonds, small business loans, expedited permitting, redevelopment and brownfield loans, and job training assistance in the zone. A number of companies are already located in the area and both the Los Rios Community College District and Sacramento State are actively engaged in developing workforce training and clean tech curriculums to serve businesses and workers in the zone. Los Rios has a GreenForce program in place including a solar technician certificate as well as a green building and design certificate. The solar cities grant is in part to help further develop curriculum.

### *Seattle*

The city provides technical assistance and manages consultants to business improvement areas which are self-organized, self-assessed districts for a variety of needs including marketing, events, and increased police protection. Business Improvement Areas require a petition approved from 60 percent of the businesses to approve a special property tax assessment to fund BIA operations. The city's Office of Economic Development staff provides technical assistance and data as well as helps draft the final ordinance. Once approved the BIA becomes a nonprofit with a board though it may be co-housed with the neighborhood chamber of commerce.

Seattle also provides support to organizations in neighborhood business districts through an annual grant process. Grants are small but can be used for a variety of BIA projects such as business start-up costs, marketing, membership recruitment, and businesses planning as well as neighborhood district branding, physical improvements, lighting and other community benefits. A total of \$150,000 a year is allocated for 15 to 20 projects at about \$20,000.

The city supports neighborhood business districts by keeping farmers' markets on public property close to the core of the district through reduced permit fees. OED also contracts with a nonprofit organization that provides Web site and other technology services for neighborhood district or BIA organizations that include resources for small businesses as well as a business directory.

### *Minneapolis*

The city's Community Planning and Economic Development department operates from the city comprehensive plan which includes projects to redevelop commercial nodes/corridors. Staff from each major CPED department -- housing, economic development and planning -- are assigned to a team on a particular geographic corridor. The 2 percent loan described above is also available specifically to businesses in the designated corridors.

### *Vancouver*

Vancouver supports business improvement areas which focus on business and tourism development, safety and security, and street enhancement. The business improvement areas obtain funding through a special property tax. Each property owner's share of the annual budget is proportionate to their share of the total taxable value within the business improvement area boundaries. In most lease agreements, property owners pass on this cost to the business tenants.

### ***Sustainable Way of Life***

- 1) Innovation in green development and technology
- 2) Central city strategies
- 3) Progressive public policy

Sustainability agendas are permeating cities, though the approach in Portland is one of the most comprehensive. The cornerstone of sustainability efforts often stems from the drive to meet greenhouse emission reduction goals. Cities with the most comprehensive approaches have developed a master sustainability plan, are committed to a mission to grow a sustainable city, and enjoy strong mayoral support. Plans include benchmarks including health, transportation, air quality, jobs, neighborhoods, and public outreach and participation.

Though cities are already engaged in sustainability, the planning is relatively recent and few have started to implement or finance their strategies. The financing tools available are often the same as for commercial corridor strategies repackaged for sustainability. Cities are also exploring regulation and policy changes rather than financing to implement their agenda.

Though cities describe them separately from sustainability, many offer a number of incentives to support a creative sector as part of a center city strategy.

## **1) Innovation in green development and technology**

### *Austin*

The city's Emerging Technology Program works to attract, retain and facilitate the growth of emerging technology firms in Austin. It serves as a central clearinghouse and broker of information for networking, resources, financing and business development for its five target industries. The Emerging Technologies Program is part of the city's Economic Growth and Redevelopment Services Office and has 1.5 staff people dedicated to its activities.

Another important activity connected to the Emerging Technologies Program is EGRS' investment in the Austin Technology Incubator, a nonprofit division of The University of Texas at Austin. ATI has four incubators that support early-stage companies in bioscience, wireless, information technology and clean energy. The EGRS Office invests \$220,000 in the clean energy incubator each year - \$100,000 to support a staff person and \$120,000 to sponsor ATI's annual Clean Energy Summit. The summit has two parts. The first is a forum that connects early stage clean energy companies to venture capital. The second is a national gathering generally focused on green energy issues. In addition to city investments, the ATI program is funded through member company fees, the University of Texas, and industry and technology associations. Member companies also grant a percentage of their equity to ATI.

## **2) Central city strategies**

### *Austin*

The city's Business Retention and Enhancement Program is a loan program created to support a struggling central city district in the city. The program provides low-interest loans for business improvements up to \$250,000. Financing can be used for façade improvement, tenant finish-out, and business-related equipment. It targets art galleries, food stores, retail, indoor entertainment, restaurants, and theaters in the district. Funding to capitalize the fund originates from temporary use of right-of-way fees and license agreements

The city also uses its Art in Public Places program to include works of art in city construction projects. By ordinance, 2 percent of city-financed construction budgets is allocated to commission or purchase art for public sites such as the airport, convention center, libraries, parks, police stations, recreation centers and streetscapes. Construction projects that are less than \$100,000 are exempt.

### *Denver*

The Downtown Denver Business Improvement District is the largest BID in the city. It is a quasi-governmental management organization funded by downtown commercial property owners. The BID maintains the downtown's main commercial area and enhances basic city services by funding district-wide security, marketing and business support programs. There are approximately 370 private commercial property owners in the BID. The downtown BID's total revenue is \$5.08 million, with 82 percent coming from its annual assessment on property owners in the district and 21 percent coming from "non-property owner revenues." This latter revenue stream has been steadily on the rise and includes money from vending and permitting activities,

governmental agreements, contract revenues and interest earning. Eight years ago the BID's total revenue was \$2.3 million.

### **3) Progressive public policy**

#### *Sacramento*

The city is piloting a bid preference system for RFPs that include verifiable criteria such as purchasing a certain percent of greenpower from the Sacramento Municipal Utilities District or owning/leasing a LEED-certified building.

#### *Seattle*

The mayor operates a policy-oriented Green Building Taskforce to improve green building, increase density and implement low-impact strategies, and generally integrate sustainable principles into city planning. Developers who agree to include sustainability elements in the design and construction can increase height limits for the project as a LEED density bonus. Green priority permitting is available for developers interested in a high-performance sustainable project with staff dedicated to facilitate the project through a green design review team

Seattle also has a “green factor” for building in certain areas to generate community benefits. Projects are required to provide a certain percent of space as green – natural vegetation to green roofs, vertical gardens or permeable pavements dealing with water flow.

#### *Albuquerque*

The city requires that all city-funded buildings above 5,000 square feet or 50,000 kilowatts of electrical demand must be Silver LEED certified. To support the order the city adopted an energy conservation code that all new buildings will be 30 percent more energy-efficient. The city also requires that at least 20 percent of the city's energy come from wind power. Since 2006, the city has required that all new vehicles purchased by the city use alternative fuels. It has also instituted a rule that hybrid vehicles can park for free in the city.

#### *Chicago*

The city used its procurement authority to attract Solargenix, a manufacturer of solar thermal collectors, to Chicago. The city agreed to buy \$5 million worth of collectors for municipal facilities and then gave another \$5 million worth of grants to business and housing developments to buy similar solar collectors from Solargenix.

#### *Denver*

In the early 1990s, the Denver Urban Renewal Authority began requiring that a project art piece be included in all private development projects receiving tax increment financing funds. The value of the project art must be equal to at least 1 percent of the gross maximum reimbursable expenses of the funded project. Since this policy was implemented, over \$1 million has been spent on more than 25 project art pieces on view throughout Denver.

#### *Vancouver*

The city approved the creation of a sustainable community energy system for Southeast False Creek, a district that will be designated as the Olympic Village for the 2010 Olympics. The

system will reduce heating-related greenhouse gas emissions by more than 65 percent. All buildings in Southeast False Creek are to be designed to LEED Gold standards. Methane gas captured from the Vancouver Landfill is being used to generate heat and electricity in the district.

On the regional scale, Metro Vancouver adopted the Sustainable Region Initiative in 2002. At the time it was one of the most aggressive efforts by any metro region in the world to put sustainability at the core of all its planning and operations. The SRI is wide in its scope and vision. It is not just about protecting the environment but also includes a set of principles designed to shape future prosperity around “use pricing” and avoiding the accumulation of future economic and social liabilities. It further seeks to avoid the concentration of economic hardship and to promote social cohesion. Notable progress can be found in efforts to clean up the drinking water, reduce waste, improve air quality, reduce greenhouse gas emissions and provide for outdoor recreation. Big challenges still remain in developing more affordable housing and reducing energy use from non-renewable sources.

## 4. Conclusion

The nature of economic development is changing as the economy changes. There are four major factors that PDC should pay attention to in developing its economic strategy for the next decade.

First, the essence of strategy is to choose the tools that are appropriate to the problem at hand. In the 1950s, the problem of urban economies was blight, and urban renewal/tax increment financing was a tool that was specifically adapted to address that problem. Today, the economic challenge—and opportunity—is promoting sustainability and encouraging innovation and entrepreneurship in the related clean tech and green industries. It is certain that a strategy to develop these industries will require a fundamentally different set of tools than we needed to take on physical blight. In particular, the city needs tools that continue to push innovative policy changes in the public realm. There may be opportunities for PDC to manage the nation’s first municipal cap and trade system, as we outline in the opening of this draft. Alternatively, implementing a phased carbon tax or carbon disposal fee may help local firms adjust earlier to a global economy that values the environment and prices goods and services accordingly. In turn, this helps them adjust to new green markets more quickly than their competitors in other cities. Another opportunity that would put Portland at the forefront of innovation is creating industrial and commercial sustainability districts in the city that would enable property owners to borrow funds for shared, large-scale energy efficiency, smart energy distribution, renewable/alternative energy generation, or pollution prevention/reduction efforts. The borrowed funds would be paid off through an assessment on the property owners or some other value capture mechanism that calculates the savings.

Second, the economic basis of competition is increasingly shifting to innovation. Businesses and industry clusters tend to succeed only to the extent that they can generate innovative processes and products faster (and better) than their competitors. Cities’ economic development success depends on creating an environment where innovation happens easily. While many of PDC’s existing tools are oriented to physical development, its new strategy rightly points to developing the city’s connections to research and development as well as its entrepreneurial environment for innovation. There may be some opportunities to bundle Portland’s existing financing tools to help further the scale and ambition of the Portland + Oregon Sustainability Institute (P+OSI). Like Boston, PDC may re-designate money from its 108 revolving loan fund program to finance small business and commercialization opportunities that come out of POSI. There may be other opportunities to extend seed capital to early stage companies by creating smaller financing programs like Minneapolis’ Working Capital Guarantee Program. Or, as in Austin, PDC may use its convening capacity to bring together venture capital and early stage companies pursuing green technologies and innovation by hosting an annual summit that becomes a national gathering for green venture capital.

Third, innovation depends on the availability of talented workers. Companies are looking for places that have lots of talented workers and places where it is relatively easy to recruit others. PDC may use a new city-philanthropic workforce collaborative to increase investment in better workforce and post-secondary educational systems, as well as “grow its own” labor force to be the talent that feeds innovation. There may also be opportunities to bring new investments to green job training programs in the city by using something like Boston’s linkage fees to extract

training revenue or commitments from large scale redevelopment. Or, PDC could work to coordinate and bundle existing programs like Portland's Solar Now program into a coordinated set of training opportunities that increases homegrown talent. Further, there is strong evidence that talented workers are themselves increasingly concentrating in places that have a high quality of life. As a direct result, the quality of life that a city offers plays a crucial role in attracting and retaining the talent that is critical to an economic strategy based on innovation. Portland's strong commitment to quality of life has been, in effect if not in intention, driving its economic growth for decades. Ironically, PDC's re-examination of its economic development strategy comes at a time when other cities are recognizing the efficacy of what Portland has done for such a long time. We believe Portland's commitment to its quality of life, and PDC's role in supporting that, should be identified as a key tool that supports the city's overall economic development strategy.

Fourth, a city's push toward environmental sustainability creates a market opportunity for "green economy" firms in itself. If the public sector can cluster its procurement, operations and public policy to bring to scale transparent buying power, this can be turned into an incentive for firms to stay or locate in a city. For example, 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. PDC should also consider this as one more tool to add to the city and state's more traditional incentives and grants that attract and retain business in Portland, even if the scale or markets may tend to smaller business.

Our next steps will be to identify which tools in this findings report are appropriate for PDC's strategy, if there are others to investigate, and how they should be packaged so as to position Portland to be first in green businesses, first in green jobs and first in green innovation.