

**Financing Equitable TOD in Denver, San Francisco, and the Rest of the Nation**

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Bachelor of Arts in Women's Studies  
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Submitted to the Department of Urban Studies and Planning  
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**FINANCING EQUITABLE TRANSIT-ORIENTED DEVELOPMENT IN  
DENVER, SAN FRANCISCO, AND THE REST OF THE NATION**



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## **ABSTRACT**

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Equitable TOD is an integrated approach to community development that links affordable housing production and preservation strategies to regional transportation and economic development planning. This approach has strong potential to improve access to opportunities for low- and moderate-income families; however, the current community development finance system is ill-equipped to address the significant and complex financial needs of equitable TOD. In response to this challenge, two public-private funds have been established to make available new financial tools that help expand access to equitable TOD.

Through a review of the literature and interviews with practitioners, funders, and researchers in the field of community development, this thesis explores how the \$15M Denver TOD Fund and the \$50M San Francisco Bay Area Transit-Oriented Affordable Housing Fund overcame the barriers to financing equitable TOD, and what their successes and challenges imply for the future of the national community development finance system.

I argue that the funds have made an important physical impact on local communities, but their ability to meet the need for equitable TOD is severely constrained by their small scale. I find that the funds have had important effects on the broader community development finance system, and that these effects have extended the funds' impact beyond the scale of their direct investments. I identify four key effects: improved understanding of the need for equitable TOD; increased participation by key financial institutions; creation of new financial products; and improved alignment of public and private funding sources.

Building on the funds' success and momentum, I recommend three policy changes to facilitate the development of equitable TOD at the national scale: first, the creation of a federal policy environment that encourages investment in equitable TOD through coordinated planning and targeted financial incentives; second, the devotion of significantly greater public resources for equitable TOD; and third, the enhancement of the capacity of CDFIs and other organizations to take advantage of new opportunities for equitable TOD.

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# 1. INTRODUCTION

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*“We live today in cities and suburbs whose form and character we did not choose. They were imposed upon us, by federal policy, local zoning laws, and the demands of the automobile. If these influences are reversed – and they can be – an environment designed around the true needs of individuals, conducive to the formation of community and preservation of the landscape, becomes possible. Unsurprisingly, this environment would not look so different from our old American neighborhoods...”<sup>1</sup>*

Community development finance today is at a crossroads. The need for investments in affordable housing, health care facilities, child care centers, fresh food stores, and other vital community infrastructure is growing, while traditional sources of public financing shrink and private financing becomes more and more difficult to obtain. In 2009, nearly one in five households in the U.S. faced a severe housing cost burden, meaning they spent more than 50 percent of their income on housing costs. In the same year, according to a report from the U.S. Department of Agriculture, about one in twelve people lived in low-income areas more than one mile from the nearest supermarket or large grocery store. Ten percent of these residents – more than two million people – did not have access to a car.<sup>2</sup> Access to health care is also a challenge for many households: in 2009, the latest year for which data is available, there were five times more people living in medically underserved communities<sup>3</sup> as there were patients served by community health centers.<sup>4</sup>

Meanwhile, between 2000 and 2012, federal appropriations for the Community Development Block Grant program, a critical source of flexible community development funding for states and local governments, decreased by more than 30 percent, from \$4.8 billion to \$3.3 billion.<sup>5,6</sup> During the

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<sup>1</sup> Andres Duany, *Suburban Nation: The Rise of Sprawl and the Decline of the American Dream*, 1st ed. (New York: North Point Press, 2000), xxiii–xxiv.

<sup>2</sup> Michele Ver Ploeg and et al, *Access to Affordable and Nutritious Food--Measuring and Understanding Food Deserts and Their Consequences: Report to Congress*, Administrative Publication (United States Department of Agriculture, Economic Research Services, June 1, 2009), iii.

<sup>3</sup> Medically Underserved Areas are designated by federal government on the basis of the demographics of the entire population in an area compared to national statistics. Relevant indicators include: percentage of elderly population, poverty rate, infant mortality rate, ratio of primary care physicians per 1,000 population. (Source: HRSA.gov)

<sup>4</sup> *Community Health Centers: The Challenge of Growing to Meet the Need for Primary Care in Medically Underserved Communities* (Washington DC: Kaiser Family Foundation, 2012), 3.

<sup>5</sup> Eugene Boyd, *Community Development Block Grants: Funding Issues in the 112th Congress and Recent Funding History*. (Washington DC: Congressional Research Service, April 6, 2011), 13.

<sup>6</sup> ‘CDBG Program Allocations’, *US Department of Housing and Urban Development: Community Development Allocations and Appropriations*, n.d., [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/communitydevelopment/budget](http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/budget).

same time period, appropriations for the federal HOME program, which provides gap financing for affordable housing development, shrank by nearly 40 percent, from \$1.6 billion to \$1.0 billion.<sup>7</sup> And in 2011, Congress slashed federal appropriations for health care centers by more than 25 percent.<sup>8</sup> Private financing for community development has also dried up. From 2000 to 2011, the latest year for which data are available, annual grant awards through the Federal Home Loan Bank's Affordable Housing Program (AHP), one of the largest private sources of grant funds for affordable housing, shrank by 25 percent, from \$246 million to \$188 million.<sup>9</sup> Lastly, of course, access to private loans remains a challenge as banks recover from the global credit crisis.

While the need for investments in community infrastructure grows, the geography of community development is shifting. While a small "population rebound" has taken hold in the central cities, population growth remains concentrated in suburban and exurban areas. The Brookings Institution's analysis of 2010 census data observes that between 2000-2008, two thirds of primary cities in the largest 100 metro areas gained population. The rate of growth on the outer edges of these areas was three times greater than the rate in the cities and inner suburbs.<sup>10</sup> Unsurprisingly, rates of poverty are also rising faster at the edges of metropolitan areas than in the core: "Between 1999 and 2008, the suburban poor population grew by 25 percent – 10 points above the national average and almost five times the growth in primary city poor." By 2008, nearly one in three poor households in the U.S. lived in the suburbs; these areas were home to 1.5 million more poor people than primary cities.<sup>11</sup>

As earlier research from Brookings has revealed, it is not only people but also jobs – particularly low-wage jobs – that are moving to the suburbs. From 1998-2006, the share of jobs located within three miles of downtown decreased in nearly every metro area in the country. More than half of the

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<sup>7</sup> 'FY13 Budget Chart for Selected Department of Housing and Urban Development (HUD) and Department of Agriculture (USDA) Programs', *National Low Income Housing Coalition*, April 19, 2012, [http://nlihc.org/sites/default/files/FY13\\_Budget\\_Chart.pdf](http://nlihc.org/sites/default/files/FY13_Budget_Chart.pdf).

<sup>8</sup> *Community Health Centers: The Challenge of Growing to Meet the Need for Primary Care in Medically Underserved Communities*.

<sup>9</sup> 'FHL Banks Financial Data', *FHL Banks Financial Data*, n.d., [http://www.fhlb-of.com/ofweb\\_userWeb/pageBuilder/fhlbank-financial-data-36](http://www.fhlb-of.com/ofweb_userWeb/pageBuilder/fhlbank-financial-data-36).

<sup>10</sup> *State of Metropolitan America: On the Front Lines of Demographic Transformation* (Washington, DC: Brookings Institution, 2010), 7.

<sup>11</sup> *Ibid.*, 133–4.

jobs in the manufacturing, construction, and retail industries are now located more than 10 miles from downtown.”<sup>12</sup> Brookings summarizes the combined effects of these trends as follows:

Population and jobs are increasingly decentralized, commuting from one suburb to another and “reverse commuting” from cities to suburbs are more common, and commuters are driving alone to work now more than ever. The effects of these trends on the average American household are profound... Workers are devoting greater time and money to their daily commutes. Among household expenses, transportation generally ranks second, surpassed only by housing. Households generally spend as much on transportation as they do on the combined expenses of food and health care.<sup>13</sup>

The impact of increasing transportation costs is particularly significant for low-income households.<sup>14</sup>

Greater investment in transit-oriented development (TOD), commonly defined as high-density, mixed-use development within walking distance (a 1/2 mile) of a transit station, can help address all of the community development challenges described above. As summarized in a briefing paper prepared by the Center for Transit-Oriented Development, the core idea of TOD “is that people with a wide range of incomes can live and work near a transit system that will allow them to take care of some of their daily trips using transit, rather than driving.”<sup>15</sup> By concentrating development in transit-accessible locations and improving regional connectivity, TOD can create significant social, environmental, and economic benefits. (These benefits will be explored in detail in Chapter Three.)

TOD also helps capitalize on growing public investments in transit infrastructure. According to the Government Accountability Office, between 1998 and 2008, transit ridership increased more than 28 percent.<sup>16</sup> In an effort to meet rising demand, since 2001, the federal government has approved funding for more than 200 new fixed guideway transit lines.<sup>17</sup> Between 2003 and 2007 alone, two dozen new light rail lines and extensions to existing systems came online. Today, more than 80 cities and regions across the U.S. are planning more than \$250B in transit projects. These planning

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<sup>12</sup> Elizabeth Kneebone, *Job Sprawl Revisited: The Changing Geography of Metropolitan Employment* (Washington, DC: Brookings Institution, 2009), 1.

<sup>13</sup> Elizabeth Roberto, *Commuting to Opportunity: The Working Poor and Commuting in the United States*. (Washington, DC: Brookings Institution, 2008), 2.

<sup>14</sup> *Ibid.*, 1.

<sup>15</sup> *Fostering Equitable and Sustainable Transit-Oriented Development: Briefing Papers for a Convening on Transit-Oriented Development*. (Washington, DC: February 24, 2009. Center for Transit-Oriented Development, 2009), 5.

<sup>16</sup> *Public Transportation: Transit Agencies' Actions to Address Increased Ridership Demand and Options to Help Meet Future Demand*, Report to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate (Washington, DC: United States Government Accountability Office, November 1, 2010), 12.

<sup>17</sup> Stephanie Pollack, Barry Bluestone, and Chase Billingham, *Maintaining Diversity in America's Transit-rich Neighborhoods: Tools for Equitable Neighborhood Change*. (Boston, MA: Northeastern University, 2010), 12.

efforts include more than 800 new fixed guideway stations that are currently in the proposal and approval process.<sup>18</sup>

While the time is ripe for investment in TOD, unfortunately, TOD is much more challenging to build than greenfield development: it is extremely complex, costly to develop, and difficult to finance. Equally problematic is the fact that federal housing and transportation policies continue to subsidize sprawl while limiting support for more efficient and sustainable forms of community development. For example, regulations for the federal Low Income Housing Tax Credit (LIHTC) program, the largest source of public financing for the construction of affordable housing, exclude land acquisition costs from projects' "eligible basis" (the development costs that are eligible for financing). Because the cost of land near transit locations is often higher than the cost of land on the edges of metro areas, this creates challenges for developers seeking to locate housing in higher-cost, transit-accessible locations. At the same time, as the nonprofit advocacy organization Transportation for America notes, even though transit ridership has been growing faster than the U.S. population over the past 20 years, "only 18 cents of every transportation dollar supports public transportation." Furthermore, "A local community has to provide a dollar for each federal dollar received in transit funding, versus providing just \$0.25 for each federal dollar received for highways."<sup>19</sup> This makes it difficult and costly for municipalities to create new or extend existing transit systems to serve development at the urban periphery.

In response to the lack of TOD-supportive public policies and financing mechanisms, several innovative community development finance practitioners around the country have experimented with new ways of assembling and delivering financial products that facilitate investment in TOD. This thesis focuses in particular on the creation of two public-private funds – one in Denver, the other in the San Francisco Bay Area – designed to provide developers with new financial tools to help meet the need for mixed-income, mixed-use TOD. The paper is intended not only to better understand the history and performance of these Funds, but also to situate them within the context of the broader community development finance system, exploring their impact on that system and identifying the implications for federal, state, and local public policy.

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<sup>18</sup> 'TOD Database', *Center for Transit-Oriented Development*, n.d., <http://toddata.cnt.org/>.

<sup>19</sup> 'Stranded at the Station: Mapping the Transit Funding Crisis', *Transportation for America*, n.d., <http://t4america.org/resources/transitfundingcrisis/>.

## ***I. Background***

### ***History of Transit-Oriented Development (TOD)***

In their landmark paper, *Transit Oriented Development: Moving from Rhetoric to Reality*, Dena Belzer and Gerald Autler trace the history of TOD in the U.S. through three phases: development-oriented transit, auto-oriented transit, and transit-related development. Beginning in the mid-19<sup>th</sup> century, the first phase saw private developers financing the construction of transit to serve existing residential developments and employment centers. In Cleveland, for example, entrepreneurial developers such as Patrick Calhoun, M.M. Brown, and Haycox and Post financed the extension of the downtown streetcar network to serve upscale residential neighborhoods they had built around the urban edge.<sup>20</sup> Belzer and Autler note that many streetcar stops featured small retail clusters to serve the needs of residents and commuters alike. “These small commercial districts are, to some extent, the precursor of modern TOD.”<sup>21</sup> This early period of development-oriented transit came to a hurried close a few decades into the 20<sup>th</sup> century, when the historical necessity to pair residential and economic development with transit was obviated by the invention of mass produced automobiles.

The second phase in TOD’s development is the rise of “auto-oriented development” in the post-war period. This era, which is the subject of more detailed analysis in the second chapter, saw major shifts in federal housing and transportation policies and a large-scale migration of middle- and upper-class households from the cities to the newly expanding suburbs. Growing household dependence on the automobile during this era destabilized many of the assumptions that had guided development patterns for the past century. For example, it was no longer necessary for developers to co-locate transit, housing, jobs, and retail in compact, dense developments in the urban core. In fact, it became much more cost effective to build in the suburbs. As a result, the dominant approach to development across the nation was soon characterized by sprawling, low-density housing and strict segregation of land uses. This form of development has resulted in myriad challenges to the country’s economic, environmental, and public health, yet it remains the philosophical foundation for many of today’s most critical housing and transportation policies.

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<sup>20</sup> ‘City of Cleveland Heights, OH : History/Architecture’, n.d., <http://www.clevelandheights.com/index.aspx?page=488>.

<sup>21</sup> Dena Belzer and Gerald Autler, *Transit-oriented Development: Moving from Rhetoric to Reality*, Strategic Economics. (2002). (Berkeley, CA: Strategic Economics, 2002), 4.

Belzer and Autler refer to the next phase in TOD's development as "transit-related development." This emerging approach uses large-scale real estate development projects sited on public-owned land to offset the costs associated with new transit development. While these projects can be a financial boon to transit agencies and municipal governments, as Belzer and Autler put it, "the highest and best use in financial terms is not always the best in transit or neighborhood terms."<sup>22</sup> In other words, *transit-related* development is not an ideal form of *transit-oriented* development.

Today, transit-oriented development is generally understood as a physical development pattern featuring three core characteristics: proximity to transit (sometimes called "location efficiency"), density, and integrated land uses. The most commonly used definition of TOD – high-density, mixed-use development within walking distance (a 1/2 mile) of a transit station – makes clear the contrast between TOD and the patterns of low-density, single use, auto-dependent suburban sprawl that have dominated the U.S. development landscape for more than half a century. While this distinction is important, it focuses solely on TOD's physical design, ignoring its potential to generate social, economic, and public health benefits.

### ***What is Equitable TOD?***

Equitable TOD is a term used to focus attention on TOD's promise as a sustainable strategy to improve quality of life for low- and moderate-income (LMI) households. More than just a physical design strategy, TOD can be an integrated approach to community development that links affordable housing production and preservation strategies to regional transportation and economic development planning. The goal of such an approach is two-fold: to reduce the share of monthly income that LMI households must dedicate to the combined costs of housing and transportation, and to increase access to employment, education, and other opportunities for LMI households.

At its core, equitable TOD is about ensuring that the myriad benefits of public investments in TOD are shared by all residents of a community. Where TOD's physical design standards simply call for housing that is accessible to transit, equitable TOD requires the development of a range of housing types and affordability levels that support the formation of sustainable mixed income communities. Similarly, where physical design standards emphasize the integration of neighborhood-scale retail in residential neighborhoods, equitable TOD helps ensure that these uses include a variety of goods and services (e.g., child care, fresh food stores, health and social services) that meet the needs of a diverse population.

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<sup>22</sup> Ibid., 6.

## ***II. Methodology***

My thesis explores the following three research questions:

1. What are the barriers to financing equitable TOD?
2. How have the Denver and Bay Area TOD Funds overcome these barriers?
3. What are the implications for the community development finance system?

I argue that the greatest challenge to equitable TOD is the current structure of the community development finance system. The Denver and Bay Area TOD Funds are successful work-arounds to this system that help prove the feasibility of different ways of financing community development. The challenge going forward is to apply the lessons learned by these funds to create systemic change that expands access to equitable TOD at the national scale.

I begin with a brief historical overview of U.S. development patterns in the mid- to late-20<sup>th</sup> century, focusing on the ways in which U.S. housing and economic policies contributed to the rise of sprawl and reviewing the many negative consequences of this unsustainable development pattern. Next, I contrast sprawling development patterns with the social, economic, and environmental benefits of TOD and explain the need for specific investments in *equitable* TOD. Then, I review the financial and political challenges that limit the extent to which developers are able to pursue these types of projects. This analysis provides a context in which to understand the history, purpose, and local impact of the Denver and Bay Area TOD Funds, which I explore through two in-depth case studies. Finally, through interviews with key stakeholders involved in the funds and research experts in the field of equitable TOD, I consider the potential impact of the TOD Funds on the community development finance system as a whole, and offer an analysis of the implications for federal, state, and local public policies.

My argument will proceed in the following order:

### *Chapter Two: Context*

I briefly review the history and effects of suburban sprawl, which I identify as the dominant development pattern in the U.S. over the past half century. I examine the political and economic factors that drove the spread of sprawl and review the literature on sprawl's negative effects on the environment, the economy, and people.

### *Chapter Three: The Opportunity*

In this chapter, I review the literature regarding the environmental, economic, and social benefits of TOD. I focus on the demonstrated potential for equitable TOD to improve financial sustainability and expand access to employment, education, and other opportunities for LMI households.

### *Chapter Four: The Challenge*

I describe the financial challenges to equitable TOD, arguing that it is not only high development costs but also the structure of the community development finance system that limits the supply of equitable TOD. I argue that the underfunded, decentralized, and diffuse U.S. community development finance system that evolved in the wake of Regan-era deregulation is ill-equipped to address the significant and complex financial needs of equitable TOD projects. Specifically, I contend that the current system's development priorities and funding allocation processes are fundamentally incompatible with the goal of realizing equitable TOD.

### *Chapter Five: Case Studies*

In this chapter, I describe the history, purpose, and structure of the Denver and San Francisco Bay Area TOD Funds. Drawing on interviews with more than a dozen stakeholders, I review the funds' accomplishments to date and summarize their respective aspirations for the future. This chapter lays the groundwork for the analysis of the funds' impact on the community development finance system that follows in Chapter Six.

### *Chapter Six: Analysis and Recommendations*

This chapter draws on interviews with more than a dozen community development practitioners to assess the systemic impacts of the Denver and Bay Area TOD Funds and to determine what changes are necessary at the level of the national community development finance system in order to make increased investment in equitable TOD a reality. I identify four key effects of the TOD Funds on their local community development finance systems:

- Increased attention to and improved understanding of the need for equitable TOD;
- Growing participation in TOD projects by key private and nonprofit financial institutions;
- Leveraged public resources to create innovative new financial products; and
- Improved alignment among public and private funding sources.

Applying the lessons learned by the TOD Funds, I then recommend three major policy changes aimed at overcoming the systemic barriers to equitable TOD identified early in the paper:

- First, the creation of a federal policy environment that facilitates investment in equitable TOD through coordinated planning and targeted financial incentives;
- Second, the devotion of significantly greater public resources for equitable TOD; and
- Finally, the enhancement of the capacity of CDFIs and other organizations to take advantage of new opportunities for equitable TOD.

### *Chapter Seven: Conclusion*

In the final chapter, I summarize the results of my research and offer suggestions for additional areas of research to bolster the case for investment in equitable TOD.

## 2. CONTEXT: THE HISTORY AND CONSEQUENCES OF SPRAWL

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To put in context the argument in favor of increased effort and investments for equitable TOD, this chapter reviews the myriad environmental, economic, and social challenges associated with the sprawling development patterns that have dominated U.S. development for the past eighty years. The chapter begins with a brief history of the creation of the U.S. housing finance system and explains the ways in which this system contributed to the rise of sprawl during the mid-20<sup>th</sup> century.

### *1. What Is Sprawl?*

As a development pattern, TOD represents a significant departure from the norms that have characterized U.S. growth since the late 1930s. These norms, collectively referred to as “sprawl,” encompass both physical design standards and their underlying socio-political imperatives. As architect and urban planner Andres Duany has written, “Suburban sprawl is an idealized artificial system... it is an outgrowth of modern problem solving: a system for living.”<sup>23</sup> Unfortunately, as this chapter will show, sprawl is a flawed system that is both environmentally unsustainable and economically inefficient.

As a concept, sprawl is as easy to identify as it is difficult to define. Several studies (including Sierra Club,<sup>24</sup> Rutgers University Center for Urban Policy and Research,<sup>25</sup> and Galster et al<sup>26</sup>) have attempted to define and quantify metropolitan area sprawl, but each uses a different methodology and consequently arrives at different results. Rather than focus on the many ways in which these definitions differ, though, this paper adopts the definition of sprawl put forth in a landmark report by Smart Growth America. This definition – “sprawl is defined as low-density development with residential, shopping and office areas that are rigidly segregated; a lack of thriving activity centers; and limited choices in travel routes”<sup>27</sup> – focuses on sprawl’s most widely accepted characteristics.

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<sup>23</sup> Duany, *Suburban Nation*, 4.

<sup>24</sup> *Sprawl: The Dark Side of the American Dream* (Washington, DC: Sierra Club, 1998).

<sup>25</sup> Robert W. Burchell, New Jersey Office of State Planning, and Rutgers University Center for Urban Policy Research, *The Costs and Benefits of Alternative Growth Patterns: The Impact Assessment of the New Jersey State Plan* (Center for Urban Policy Research, Rutgers University, 2000).

<sup>26</sup> George Galster et al., ‘Wrestling Sprawl to the Ground: Defining and Measuring an Elusive Concept’, *Housing Policy Debate* 12, no. 4 (2001): 681–717.

<sup>27</sup> Reid Ewing, Rolf Pendall, and Don Chen, *Measuring Sprawl and Its Impact* (Washington, DC: Smart Growth America, 2002).

## ***II. How Did Sprawl Come to Dominate U.S. Development Patterns?***

As documented in Alex F. Schwartz's definitive work, *Housing Policy in the United States*, national housing policies are important to understand not only because housing plays such a fundamental role in people's daily lives, but also because "housing policy is seldom just about housing. Nearly every housing program initiated since the 19<sup>th</sup> century has been motivated by concerns that go beyond the provision of decent and affordable housing."<sup>28</sup> For example, the landmark National Housing Act of 1937 was designed to promote employment in the construction trades as much as to expand the nation's stock of affordable housing. Exploring the political and ideological underpinnings of national housing policy in the 20<sup>th</sup> century is critical to understanding the current structure and priorities of the broader community development finance system.

Schwartz traces the basic structure of today's housing finance system to the New Deal Era: "Many of the most enduring institutions and elements [of the current housing finance system], including fixed-rate, self-amortizing mortgages, mortgage insurance, and a secondary mortgage market, stem from the Roosevelt administration's interventions in response to the Great Depression."<sup>29</sup> Key institutions and elements created during this era include the Home Loan Bank System, established in 1932 to provide access to additional capital for lenders and to make mortgages more affordable to individual homeowners; the Homeowners' Loan Act of 1933, which introduced and proved the concept of a long-term, fixed-rate, self-amortizing mortgage; the Federal Housing Administration (FHA), which was created as part of the 1934 National Housing Act and helped establish a set of standards to qualify borrowers, properties, and lenders for federal mortgage insurance; the Federal National Mortgage Association, or Fannie Mae, established in 1938 to enable the federal government to purchase, hold, or sell FHA-insured mortgage loans originated by local mortgage lenders; and the Veterans Administration (VA) mortgage insurance program, launched in 1944 to provide returning war veterans with low down payment loans.<sup>30,31</sup> Together, Schwartz notes, New Deal-era programs and institutions "established a new, stable system for housing finance that stood solid for more than 40 years."<sup>32</sup>

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<sup>28</sup> Alex F. Schwartz, *Housing Policy in the United States*, 2nd ed. (New York: Routledge, 2010), 5.

<sup>29</sup> *Ibid.*, 51.

<sup>30</sup> *Ibid.*, 52–57.

<sup>31</sup> William M. Rohe and Harry L. Watson, eds., *Chasing the American Dream: New Perspectives on Affordable Homeownership* (Ithaca: Cornell University Press, 2007), 70–1.

<sup>32</sup> Schwartz, *Housing Policy in the United States*, 52.

This new system was developed just a few years before Congress enacted significant changes to the federal tax code aimed at increasing revenue during World War II. These changes resulted in a huge increase in the number of Americans subject to federal income taxes; an indirect consequence was the expanded applicability of the mortgage interest deduction, a homeownership subsidy that “allows individual taxpayers to each deduct up to \$1.1million in home loan-related interest payments from taxable income.”<sup>33</sup>

The creation of the new housing finance system combined with the expanded influence of the mortgage interest tax deduction prompted an enormous shift in American housing patterns during the mid-20<sup>th</sup> century. From 1930 to 1960, the share of U.S. households owning their own homes exploded from 47.8 percent to 61.9 percent.<sup>34</sup> Historian Kenneth T. Jackson has explained this large-scale shift by noting that “After World War II... because of mass-production techniques, government financing, high wages, and low interest rates, it was quite simply cheaper to buy new housing in the suburbs than it was to reinvest in central city properties or to rent at the market price.”<sup>35</sup> Jackson cites three factors that contributed to this phenomenon. First, FHA policies provided preferred terms to single-family home development versus multi-family construction. “Between 1941 and 1950, FHA-insured single family-starts exceeded FHA multi-family starts by a ratio of almost four to one. In the next decade, the margin exceeded seven to one. Even in 1971, when FHA insured the largest number of multi-family units in its history, single-family houses were more numerous by 27 percent.”<sup>36</sup> Second, loan terms for new mortgages were better than those for home repairs and modernization, creating strong incentives for households to purchase new homes rather than invest in their existing homes. Finally, FHA’s strict requirements regarding properties’ physical design and neighborhood environment “effectively eliminated whole categories of dwellings, such as the traditional 16-foot-wide row houses of Baltimore, from eligibility for loan guarantees.”<sup>37</sup> The easiest way to assure eligibility for an FHA loan was to purchase a new home in a suburban neighborhood.<sup>38</sup>

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<sup>33</sup> D. Stansel and A. Randazzo, ‘Unmasking the Mortgage Interest Deduction: Who Benefits and by How Much?’, *Policy Study* 394 (2011).

<sup>34</sup> ‘Historical Census of Housing Tables - Homeownership’, *U.S. Census*, n.d., <http://www.census.gov/hhes/www/housing/census/historic/owner.html>.

<sup>35</sup> Kenneth T. Jackson, *Crabgrass Frontier: The Suburbanization of the United States* (New York: Oxford University Press, 1985), 241.

<sup>36</sup> *Ibid.*, 206.

<sup>37</sup> *Ibid.*, 208.

<sup>38</sup> *Ibid.*

As a result of these policies, the majority of new residential development in the U.S. during the mid-20<sup>th</sup> century was comprised of single-family homes built on the edges of existing metropolitan areas. From 1930 to 1960, the share of households living in suburban areas nearly doubled, from 16 percent in 1930 to 30 percent in 1960.<sup>39</sup> By 1950, Jackson notes, the rate of growth in suburban areas was ten times that of central cities.<sup>40</sup> Naturally, this migration led to a rapid increase in the amount of urbanized land in major metropolitan areas across the country. The urbanized area of the Washington, D.C. metro region, for example, grew from 181 to 523 square miles between 1950 and 1970.<sup>41</sup>

The rapid urbanization of America's frontier during the mid-20<sup>th</sup> century was driven by a variety of political and economic factors, but it was fundamentally enabled by the popular embrace of the automobile. As Jackson writes,

“No other invention has altered urban form more than the internal-combustion engine... Before 1920 developable real estate had to be located within walking distance of public transit. After 1920 suburbanization began to acquire a new character as residential developments multiplied, as cities expanded far beyond their old boundaries, and as the old distinctions between city and country began to erode.”<sup>42</sup>

A 1941 study of commuting patterns revealed the magnitude of auto-oriented suburbanization's impact on daily life: it found that 2,100 communities with populations of up to 50,000 people “were completely dependent upon the private automobile for personal travel. Such a situation would have been inconceivable twenty-five years earlier.”<sup>43</sup>

Today, Jackson observes, “The residential density of a neighborhood is largely a function of the type of transportation system that accompanied its early development.” In inner cities across the country, the availability of buses and subways gave rise to blocks full of row houses and multi-family housing complexes. In streetcar suburbs, the relatively compact urban form features scattered single-family homes and duplexes interspersed with triple deckers and small apartment buildings. The sprawling, auto-oriented suburbs feature a completely different form, one dominated by large, single-family homes sited on big lots with spacious front lawns. Comparing the urban form in streetcar suburbs and auto-oriented suburbs, Jackson found “the average size of a building lot rose from about three thousand square feet in streetcar suburbs to about five thousand square feet

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<sup>39</sup> Author's analysis of U.S. Census data

<sup>40</sup> Jackson, *Crabgrass Frontier*, 238.

<sup>41</sup> *Ibid.*, 7.

<sup>42</sup> *Ibid.*, 188–9.

<sup>43</sup> *Ibid.*

in automobile suburbs. Residential densities moved in the opposite direction from about twenty thousand per square mile in trolley-based areas to about half that in areas based solely on the motorcar.”<sup>44</sup>

The link between transportation infrastructure and urban form remains strong today. As public investments in highways and roads have continued to outpace investments in transit (see Figure 1, following page), the U.S. population has continued to spread out. As a result, data from U.S. Environmental Protection Agency (EPA) show that between 1982 (the earliest year for which data is available) and 2002, the rate at which new construction consumed previously undeveloped land was more than double the rate at which the country’s population grew.<sup>45</sup> This corresponds to a nearly 20 percent decline in urbanized population density (defined as number of persons per developed acre), from 3.27 people per acre in 1982 to 2.71 per acre in 2002.<sup>46</sup>

As Belzer and Autler note, the relatively small public investments in transit infrastructure identified in Figure 1 financed the construction of transit stations and lines that “were built with an entirely different rationale than their predecessors. They were... designed explicitly to work with the automobile, with the assumption that most people would drive to suburban stations rather than walking, biking, or riding feeder-bus systems.”<sup>47</sup> In addition, most stations were surrounded by large parking lots and disconnected from the surrounding community, limiting the development potential of adjacent land. While acknowledging the important role that these systems (including the Metro in Washington, D.C. and the BART in San Francisco) play in their regions, Belzer and Autler nonetheless note that they were not designed with transit-oriented development in mind and thus do not generate the types of benefits that strategic TOD can. “In general, [transit systems from this time period] do not contribute to neighborhood revitalization along all its stations as much as they should, reduce automobile dependency to the extent that they could, or encourage more efficient regional land-use patterns as well as they might.”<sup>48</sup>

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<sup>44</sup> Jackson, *Crabgrass Frontier*, 185.

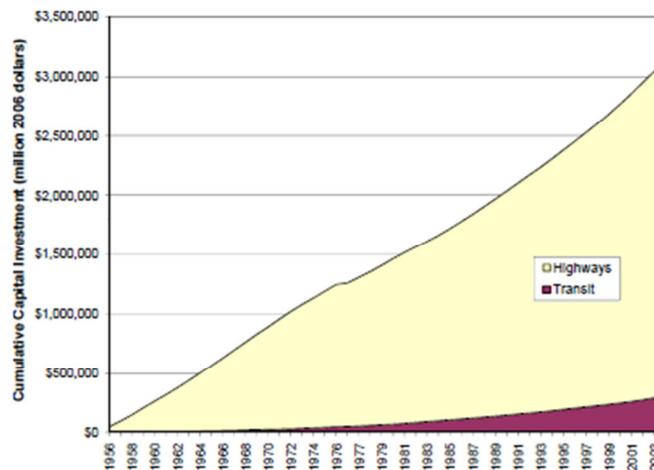
<sup>45</sup> *Report on the Environment: Land Use*, Report on the Environment (Washington, DC: United States Environmental Protection Agency, 2008), 4–20, <http://cfpub.epa.gov/eroe/index.cfm?fuseaction=list.listBySubTopic&lv=list.listByChapter&ch=48&s=225>.

<sup>46</sup> Author analysis of data from U.S. Census and U.S. EPA.

<sup>47</sup> Belzer and Autler, *Transit-oriented Development: Moving from Rhetoric to Reality*, 5.

<sup>48</sup> *Ibid.*

**Figure 1. Cumulative Government Capital Investment in Transit and Highways Since 1956 (in 2006 dollars)<sup>49</sup>**



### ***III. Effects of Sprawl***

The negative effects of sprawling, single-use, low-density development patterns on residents and communities are well studied. In particular, the relationship between sprawl and environmental sustainability has attracted significant attention. Long-range data on housing and transportation patterns reveal that the spread of suburbanization in the U.S. between 1970 and 2000 was highly correlated with increases in the number of vehicles per household and the average number of vehicle miles traveled (VMT) per person in the U.S.<sup>50</sup> In fact, as Calthorpe points out, as the U.S. population spread out between 1960 and 2010, the total annual miles driven nationally rose from 718 billion to more than 3 trillion.<sup>51</sup> As Duany explains: “Since each piece of suburbia serves only one type of activity, and since daily life involves a wide variety of activities, the residents of suburbia spend an unprecedented amount of time and money moving from one place to the next.”<sup>52</sup>

<sup>49</sup> *A Better Way to Go* (Washington, DC: U.S. PIRG Education Fund, March 7, 2008), 37, <http://www.uspirg.org/reports/usp/better-way-go>.

<sup>50</sup> ‘Historical Monthly VMT Report - TVT - Travel Monitoring - Policy Information - FHWA’, n.d., <http://www.fhwa.dot.gov/policyinformation/travel/tvt/history/>. And ‘Chart VMT-421 - Highway Statistics 2008 - FHWA’, n.d., <http://www.fhwa.dot.gov/policyinformation/statistics/2008/vmt421.cfm>.

<sup>51</sup> Peter Calthorpe, *Urbanism in the Age of Climate Change* (Washington, DC: Island Press, 2011), 30.

<sup>52</sup> Duany, *Suburban Nation*, 4.

Indeed, empirical research has confirmed the strong correlation between lower density development and relatively high VMT.<sup>53</sup>

One byproduct of increased auto usage is, of course, increased greenhouse gas emissions. Indeed, several studies have shown that per-capita GHG emissions are significantly higher among residents of sprawling suburban and exurban neighborhoods than among residents of compact, urban neighborhoods. Norman et al (2006) found that “low-density suburban development is more energy and GHG intensive (by a factor of 2.0–2.5) than high-density urban core development on a per capita basis.”<sup>54</sup> Similarly, Niemeier et al (2011) found that low-density sprawl is associated with “significant increases in VMT, VHT [vehicle hours traveled], and average trip length.<sup>55</sup> Looking toward the future, Hankey and Marshall (2009) caution that sprawl-related increases in per-capita GHG emissions are significant enough to threaten future energy and environmental policies. “Results suggest that if urban form is neglected when considering GHG mitigation strategies, it is possible that increases in annual [VMT] could undo improvements in vehicle technology and fuels.”<sup>56</sup>

There is mounting evidence that sprawling development patterns are as economically inefficient as they are environmentally hazardous. The first comprehensive study of the economic cost of sprawl to municipal governments was commissioned in 1974 by the Council on Environmental Quality, HUD, and the U.S. Environmental Protection Agency. The report, entitled *The Costs of Sprawl*, compared three different residential development scenarios (low-density, high density, and combination) and found that “in terms of total investment costs, the high density planned community is distinctly lower: 21 percent below the combination mix community and 44 percent below the low density sprawl community.”<sup>57</sup> While the methodology of this early study has its

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<sup>53</sup> Glenn Halstead, *Land Use and Transportation Demand* (Madison, WI: State Smart Transportation Initiative, November 1, 2011), [http://ssti.us/wp/wp-content/uploads/2011/11/Density%20and%20VMT\\_Halstead.pdf](http://ssti.us/wp/wp-content/uploads/2011/11/Density%20and%20VMT_Halstead.pdf).

<sup>54</sup> See, for example, Jonathan Norman, Heather L. MacLean, and Christopher A. Kennedy, ‘Comparing High and Low Residential Density: Life-Cycle Analysis of Energy Use and Greenhouse Gas Emissions’, *Journal of Urban Planning and Development* 132, no. 1 (March 1, 2006): 10–21. István László Bart, ‘Urban Sprawl and Climate Change: A Statistical Exploration of Cause and Effect, with Policy Options for the EU’, *Land Use Policy* 27, no. 2 (April 2010): 283–292. Steve Hankey and Julian D. Marshall, ‘Impacts of Urban Form on Future US Passenger-vehicle Greenhouse Gas Emissions’, *Energy Policy* 38, no. 9 (September 2010): 4880–4887.

<sup>55</sup> Deb Niemeier, Song Bai, and Susan L. Handy, ‘The Impact of Residential Growth Patterns on Vehicle Travel and Pollutant Emissions’, *Journal of Transport and Land Use* 4, no. 3 (December 20, 2011): 65–80.

<sup>56</sup> Steve Hankey and Julian D. Marshall, ‘Impacts of Urban Form on Future US Passenger-vehicle Greenhouse Gas Emissions’, *Energy Policy* 38, no. 9 (September 2010): 4880–4887.

<sup>57</sup> Real Estate Research Corporation et al., *The Costs of Sprawl: Detailed Cost Analysis* (U.S. Government Printing Office, 1974).

limitations (e.g., it focuses solely on residential development), its key findings have been confirmed in several subsequent studies.<sup>58</sup> Most recently, Carruthers and Ulfarsson developed a series of spatial econometric models which evaluated sprawl's influence on local government spending. They found that sprawl "has a negative effect on five key measures of local government spending: total direct, education, parks and recreation, police protection and roadways." Together, these measures account for 57 percent of total direct spending. Given that, the authors estimate that "if development everywhere was 50 percent more **dense**, public services would cost \$7.25 billion less annually; if it were that much less **expansive**, public services would cost \$13.12 billion less annually."<sup>59</sup> [emphasis added]

The higher cost of delivering municipal services to sprawling developments is not the only negative economic effect of sprawl. Recent research shows that walkable neighborhoods can generate significantly more property tax revenue to local governments than sprawling developments. A 2009 study commissioned by CEOs for Cities, for example, compared data on more than 90,000 home sales in 15 markets across the country and found that in 13 of these markets, higher Walk Scores were correlated with higher property values. "In the typical market," this research shows, "an additional one point increase in Walk Score was associated with between a \$700 and \$3,000 increase in home values."<sup>60</sup> On the commercial side, researchers at the real estate consulting firm Public Interest Projects have shown that low-density sprawling retail establishments provide less revenue and create fewer jobs per acre than their counterparts in the city.<sup>61</sup>

In addition to its deleterious effects on the environment and the economy, sprawl also has the potential to generate undesirable social impacts. Robert Putnam's groundbreaking book, *Bowling Alone*, was one of the first studies to draw public attention to the challenge of social isolation in sprawling residential developments. Citing extensive qualitative research, Putnam argues that the overall decline in American social capital – as indicated by the number of neighbors people know, organizations they belong to, and petitions they sign, among other things – is due in part to the rise

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<sup>58</sup> See, for example: Helen F. Ladd and John Yinger, *America's Ailing Cities: Fiscal Health and the Design of Urban Policy* (The Johns Hopkins University Press, 1991). Helen F. Ladd, 'Population Growth, Density and the Costs of Providing Public Services', *Urban Studies* 29, no. 2 (January 4, 1992): 273–295. Helen F Ladd, 'Fiscal Impacts of Local Population Growth: A Conceptual and Empirical Analysis', *Regional Science and Urban Economics* 24, no. 6 (December 1994): 661–686.

<sup>59</sup> John I. Carruthers and Gudmundur F. Úlfarsson, 'Does 'Smart Growth' Matter to Public Finance?', *Urban Studies* 45, no. 9 (2008): 1791 –1823.

<sup>60</sup> J. Cortright, *Walking the Walk: How Walkability Raises Housing Values in U.S. Cities*. (Chicago, IL: CEOs for Cities, 2009), 21, <http://www.ceosforcities.org/research/walking-the-walk>.

<sup>61</sup> 'The Smart Math of Mixed-Use Development | Planetizen', n.d., <http://www.planetizen.com/node/53922>.

of sprawl. As Putnam puts it, “Sprawl is associated with increasing social segregation, and social homogeneity appears to reduce incentives for civic involvement, as well as opportunities for social networks that cut across class and racial lines. Sprawl has been especially toxic for bridging social capital.”<sup>62</sup> Subsequent empirical research has confirmed Putnam’s findings with regard to the correlation between sprawl and residents’ civic involvement and social capital.<sup>63</sup>

Sprawl’s well-documented negative effects on the environment, the economy, and even its own residents led a growing number of urban planners and developers in the late 20<sup>th</sup> century to consider new ways of focusing urban development. Their efforts to identify more sustainable ways of accommodating growth focused specifically on reformulating land use plans to better link housing, retail, and employment centers. The result is transit-oriented development.

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<sup>62</sup> Robert D. Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon & Schuster, 2000), 62.

<sup>63</sup> Lance Freeman, ‘The Effects of Sprawl on Neighborhood Social Ties: An Explanatory Analysis’, *Journal of the American Planning Association* 67, no. 1 (2001): 69–77. Kevin M. Leyden, ‘Social Capital and the Built Environment: The Importance of Walkable Neighborhoods’, *American Journal of Public Health* 93, no. 9 (September 2003): 1546–1551.

### 3. THE OPPORTUNITY: UNDERSTANDING TOD

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As succinctly described in a 2007 report published by Enterprise Community Partners, the value of TOD lies in its “potential to provide residents with improved quality of life and reduced household transportation expenses, while creating stable neighborhoods that minimize environmental impacts, promote healthy lifestyles, and deliver real alternatives to traffic congestion.”<sup>64</sup> This chapter discusses the benefits associated with more compact, transit-accessible forms of development, using short vignettes to illustrate how these benefits have been achieved in reality. The chapter also lays out the argument for *equitable* TOD, which attempts to ensure that TOD’s benefits are accessible to people of all economic backgrounds.

#### ***I. Multiple Benefits of TOD***

The Center for Transit-Oriented Development (CTOD) identifies TOD’s “core opportunity” as its ability to reduce auto dependency: “By living and/or working near a transit system, individuals have greater choices about their transportation options, enabling them to reduce the amount of money and time they spend on travel.”<sup>65</sup> Researcher Robert Cervero concurs:

“If there is any single aspect of TOD that all sides agree is beneficial to society as a whole, it is increased ridership. TOD is poised to relieve traffic congestion, improve air quality, cut down on tailpipe emissions, and increase pedestrian safety in transit-served neighborhoods by coaxing travelers out of cars and into trains and buses.”<sup>66</sup>

The literature indeed supports the notion that TOD is correlated with higher rates of transit ridership, lower rates of car ownership, lower numbers of annual vehicle miles traveled, lower GHG emissions per capita, and improved air quality.<sup>67</sup> These positive benefits are the combined results of transit accessibility and dense, compact development – both key features of TOD.

Comparative studies of commuting patterns between residents of TOD neighborhoods and less transit accessible neighborhoods have consistently found higher rates of transit ridership among

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<sup>64</sup> Dena Belzer et al., *The Case for Mixed-Income Transit-Oriented Development in the Denver Region* (Washington, DC: Center for Transit-Oriented Development, February 1, 2007), 10.

<sup>65</sup> Sujata Srivastava et al., *CDFIs and TOD* (Washington, DC: Center for Transit-Oriented Development, October 1, 2010), 3.

<sup>66</sup> Robert Cervero, ‘Transit-oriented Development’s Ridership Bonus: a Product of Self-selection and Public Policies’, *Environment and Planning A* 39, no. 9 (2007): 2068 – 2085.

<sup>67</sup> Researchers caution that correlation is not causation: resident self-selection and public policies both play significant roles in influencing the size of TOD’s environmental impact. (Ibid.)

TOD residents.<sup>68</sup> Research has shown that residents' commuting patterns often shift as a result of a residential move to a transit-accessible neighborhood. For example, a 1993 study analyzing the commuting patterns of recently relocated workers found that more than half of residents switched to transit commuting after their move.<sup>69</sup>

Perhaps unsurprising given the data on transit ridership, research also shows that rates of vehicle ownership among residents of TOD neighborhoods are lower. The Victoria Transport Policy Institute, for example, cites evidence that only 35 percent of households in TOD areas own two or more vehicles, compared with 55 percent in metropolitan regions overall.<sup>70</sup> Researchers at CTOD similarly found that the average household in a transit zone owned .9 cars, compared to 1.6 cars among average regional households.<sup>71</sup>

In addition to using transit more and owning few cars, residents of TOD neighborhoods also drive fewer miles each year than their peers in other types of neighborhoods. Studies from both the Victoria Transport Policy Institute and the Urban Land Institute have found that residents of densely populated neighborhoods drive between 20 percent and 40 percent less than the average person.<sup>72</sup>

Figures 2 and 3 on the following page, published as part of CTOD's groundbreaking 2010 report, *Penny Wise, Pound Foolish: New Measures of Housing + Transportation Affordability*, demonstrate the strong relationship between compact development and rates of transit and vehicle ownership.

As a result of reduced VMT, greenhouse gas emissions in TODs are lower than the average neighborhood. In a 2009 study, CTOD compared the annual transportation emissions of the average American household to the annual emissions among residents of neighborhoods that were moderately well-served, well-served, and very well-served by transit. They found that reductions in annual transportation emissions were tied to transit service: households in moderately well-served

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<sup>68</sup> Robert Cervero, 'Transit-based Housing in California: Evidence on Ridership Impacts', *Transport Policy* 1, no. 3 (June 1994): 174–183. John Luciano Renne, 'Transit-oriented Development| Measuring Benefits, Analyzing Trends, and Evaluating Policy' (RUTGERS THE STATE UNIVERSITY OF NEW JERSEY - NEW BRUNSWICK, 2006), <http://gradworks.umi.com/31/95/3195744.html>.

<sup>69</sup> Robert Cervero, 'Ridership Impacts of Transit-focused Development in California', Monograph (Institute of Urban and Regional Development, University of California, Berkeley, 1993).

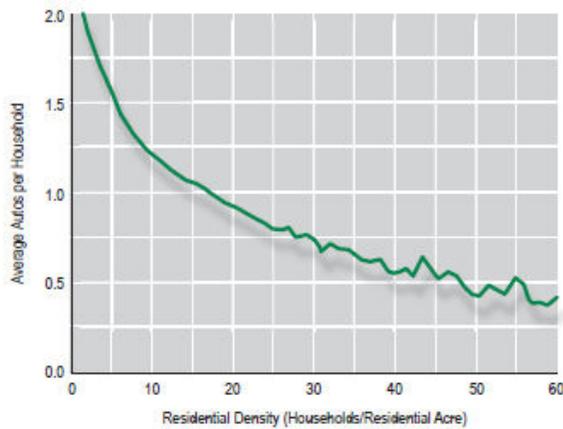
<sup>70</sup> Renne, 'Transit-oriented Development| Measuring Benefits, Analyzing Trends, and Evaluating Policy'.

<sup>71</sup> *Hidden in Plain Sight: Capturing The Demand For Housing Near Transit* (Washington, DC: Center for Transit-Oriented Development, September 1, 2004), 21.

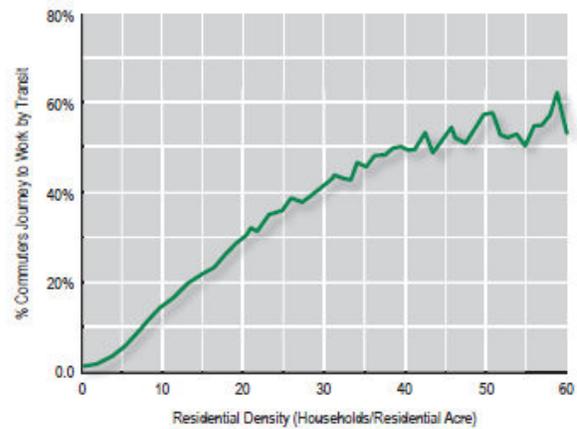
<sup>72</sup> Todd Litman, 'Land Use Impacts on Transport: How Land Use Factors Affect Travel Behavior' (2006). R. H. Ewing and S. G. America, *Growing Cooler: Evidence on Urban Development and Climate Change* (ULI, 2008).

transit zones produced 10 percent fewer transportation emissions than the average household; those in well-served neighborhoods produced about a third fewer emissions, and households in the areas that were best served by transit produced 78 percent fewer transportation emissions.<sup>73</sup>

**Fig 2: Auto Ownership Declines as Density Increases<sup>74</sup>**



**Fig 3: Transit Ridership Grows as Density Increases**



TOD's significant environmental benefits accrue not only to residents of TOD neighborhoods, whose environmentally sustainable habits produce them, but also to residents of neighboring communities and regions. The same can also be said of TOD's economic impacts, which benefit local economies and municipal governments in addition to small business owners and local residents.

At the neighborhood scale, TOD can help stimulate job creation and catalyze increased private investment in long-neglected areas. The impact of the Fruitvale Transit Village, a \$100M mixed-use development located within a TOD district, provides an excellent case study of TOD's potential local economic impact

<sup>73</sup> T. Hodges, *Public Transportation's Role in Responding to Climate Change* (Washington, DC: United States Department of Transportation - Federal Transit Administration, January 1, 2010), 5.

<sup>74</sup> Penny Wise, *Pound Fuelish: New Measures of Housing + Transportation Affordability* (Chicago, IL: Center for Neighborhood Technology, March 1, 2010), 7.

## About Fruitvale Village



Fruitvale Village is a 257,000 square foot “transit village” built on former BART parking lots in a heavily Latino neighborhood of Oakland, CA. The project was the result of years of planning and design work led by a local community institution, the Unity Council, with the support of BART and the City of Oakland. Constructed over a two-year period from 2002-3, the Village is often cited as a model of mixed-income, mixed use transit-oriented development.<sup>75</sup> It features 47 units of mixed income housing; 40,000

square feet of neighborhood retail; 114,000 square feet of office space and community facilities (including a health clinic, library, and senior center); and a 150-car parking garage. The Village also includes a pedestrian-only street and a plaza that serves as an important community gathering place.

### Economic Impact

One of Village’s development goals was “to encourage and leverage public and private investment.” The project’s financing includes large contributions from the public and private sectors, including about \$21M in public equity, nearly \$3M in private grants, and \$3M in private debt. (Total development costs were \$53.8M.) Current tenants of the project’s retail space include a variety of small businesses, restaurants, and medical offices.

An evaluation of the first four years of operations documented \$2M in new private investment in the surrounding district (mainly renovations to existing buildings). These helped to leverage \$2M in new public investments in streets, sidewalks, and facades.”<sup>76</sup>

In terms of job creation, Fruitvale Village asserted in its application to the Rudy Bruner Award competition, that its development and operations have resulted in 500 new jobs.<sup>77</sup>

The Village has also made a significant impact on the surrounding area: several market-rate housing developments are underway in the Fruitvale neighborhood, and the City of Oakland has plans to construct 275 mixed-income housing units on the adjacent parcels.<sup>78</sup>

<sup>75</sup> For example, the project was a Silver Medal winner in the 2005 Rudy Bruner Award for Urban Excellence competition.

<sup>76</sup> ‘Equitable Development Toolkit: Commercial Stabilization’, *PolicyLink*, n.d., [http://www.policylink.org/site/c.lkIXLbMNJrE/b.5136877/k.88D1/How\\_to\\_Use\\_it.htm](http://www.policylink.org/site/c.lkIXLbMNJrE/b.5136877/k.88D1/How_to_Use_it.htm).

<sup>77</sup> ‘Silver Medal Winner: Fruitvale Village’ (Bruner Foundation, 2005), [http://www.brunerfoundation.org/rba/pdfs/2005/3\\_Fruitvale.pdf](http://www.brunerfoundation.org/rba/pdfs/2005/3_Fruitvale.pdf).

<sup>78</sup> *Fruitvale Transit Village Phase 2 Initial Study and Environmental Review Checklist* (Oakland, CA: ESA, December 1, 2008), <http://www.oaklandnet.com/government/ceda/revised/planningzoning/majorProjectsSection/Fruitvale%20Transit%20Village%20FINAL%202012-19-08.pdf>.

At the city scale, research has shown that denser forms of development, like TOD, are less expensive to service (e.g., police and fire, water and sewage, etc.) than low-density developments. The high costs associated with sprawling development were reviewed above; the case study below provides an example of how denser development can create municipal savings.



In 2009, the City of Calgary commissioned the IBI Group to help develop an integrated land use and transportation plan. Specifically, IBI's analysis was to compare the cost of necessary infrastructure investments under two different growth scenarios: a status-quo "Dispersed Scenario," which was based on existing city policy and growth trends, and a new "Recommended Scenario," which was based on the outcomes of a 2007 citywide planning process and "assumes a balance of growth between greenfield development and redevelopment of existing areas within the 2005 urban footprint." The Recommended Scenario incorporates a significant amount of TOD, while the Dispersed Scenario assumes continued patterns of urban sprawl. IBI's analysis predicted that the infrastructure investments necessary to support the city's growth would be 33 percent less expensive (a savings of \$11.2 billion) under the Recommended Scenario. In addition, the Recommended Scenario was expected to reduce annual operating costs by 14 percent over sixty years. The large cost differences were driven by the need for more roads, more pipe, and more schools, police stations and fire stations under the expanded footprint of the Dispersed Scenario.

TODs can also help improve the fiscal health of local and regional transportation systems by generating new trips during off-peak hours. For example, Cervero notes that amenities such as movie theaters, retail stores, and restaurants can attract visitors to TOD areas after regular business hours. Assuming that at least some patrons arrive and depart by transit, overall transit ridership increases without creating rush-hour congestion. Such off-peak ridership helps "squeeze efficiencies in the deployment of costly rail services."<sup>79</sup>

A final, significant benefit of TOD relates to its impact on public health. Over the past decade, numerous studies have linked the walkability of TOD neighborhoods to improved exercise outcomes among local residents.<sup>80</sup> Elevated levels of exercise are, in turn, highly correlated with lower rates of obesity and chronic disease, and indeed, the literature finds that residents of TOD

<sup>79</sup> Cervero, 'Transit-oriented Development's Ridership Bonus', 3.

<sup>80</sup> For reviews of the literature from the early 2000s, see Brian E. Saelens and Susan L. Handy, 'Built Environment Correlates of Walking: A Review', *Medicine and Science in Sports and Exercise* 40, no. 7 Suppl (July 2008): S550–S566. Reid Ewing et al., 'Relationship Between Urban Sprawl and Physical Activity, Obesity, and Morbidity', in *Urban Ecology*, ed. John M. Marzluff et al. (Springer US, 2008), 567–582, <http://www.springerlink.com/content/x57848u7t83v004r/abstract/>.

neighborhoods are, on average, healthier than residents of sprawling residential developments.<sup>81</sup> While there is likely an element of self-selection involved in this association, one recent study demonstrated that access to transit is nonetheless critical to enabling people to make healthier choices. In this study, researchers compared two groups of randomly selected commuters in Charlotte, NC where a new light rail system was built. After one year, commuters who regularly took the new train were, on average, 6.45 pounds lighter than those who continued driving to work.<sup>82</sup> In addition to the impact on obesity and chronic disease, more walking and less driving produces a number of ancillary benefits including reduced stress and greater neighborhood sociability.

## ***II. Increased Demand for TOD and Implications for Equity***

Given the range of attractive benefits associated with TOD, it is little wonder that demand for housing near transit is expected to grow from six million households today to 15 million households by 2030.<sup>83</sup> Real estate advisory firms, acknowledging increasing demand for TOD, are encouraging their clients to invest in transit-rich locations. For example, the Urban Land Institute's 2011 "Best Bets" list offered the following advice to readers:

**Favor Infill over Fringe.** Move-back-in trends gain force. Twenty-something echo boomers want to experience more vibrant urban areas where they can build careers, and their aging baby boomer parents look for greater convenience in downscaled lifestyles. Driving costs and lost time make outer suburbs less economical, while the big-house wave dissipates in the Era of Less...

**Buy Land.** It will not get any cheaper than it is now, but prepare to wait (a long time) for the right development opportunity. Infill sites hold greater promise than greenfield locations.<sup>84</sup> [emphasis added]

Data from the 2010 Census indicate that the shift in population growth to more transit-accessible locations is already underway. Brookings' analysis, for example, finds that "growth of primary city"<sup>85</sup>

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<sup>81</sup> See, for example, Lawrence D. Frank et al., 'Linking Objectively Measured Physical Activity with Objectively Measured Urban Form: Findings from SMARTRAQ', *American Journal of Preventive Medicine* 28, no. 2, Supplement 2 (February 2005): 117–125. and Julian Reed et al., 'Perceptions of Neighborhood Sidewalks on Walking and Physical Activity Patterns in a Southeastern Community in the US', *Journal of Physical Activity and Health* 3, no. 2 (April 2006): 243–253.

<sup>82</sup> John M. MacDonald et al., 'The Effect of Light Rail Transit on Body Mass Index and Physical Activity', *American Journal of Preventive Medicine* 39, no. 2 (August 2010): 105–112.

<sup>83</sup> *Preserving and Promoting Diverse Transit-Oriented Neighborhoods* (Washington, DC: Center for Transit-Oriented Development, October 1, 2006), 2.

<sup>84</sup> Jonathan Miller, *2011 Emerging Trends in Real Estate* (Washington, DC: Urban Land Institute, October 1, 2010), 12.

populations of the nation's 100 metropolitan areas accelerated from 2006 to 2008, at the same time that suburban population growth slowed."<sup>86</sup>

As demand for housing near transit grows, it creates upward pressure on land values and home prices. A recent review of the literature on the relationship between transit accessibility and home prices found that "plans for the existence of transit stations and amenities commonly found in transit-oriented developments generally increase nearby land and housing values... The studies generally conclude that increases occur because residents place a premium on land and housing the closer each is to a transit station."<sup>87</sup>

A more recent study from Northeastern University comparing median gross rents and home values in TOD districts and in surrounding metro areas found that rents increased faster in 75 percent of the TOD districts studied. "The impact on home prices was even more dramatic, with nearly nine out of ten (88 percent) [TOD districts] experiencing an increase in median housing values greater than the increase in home prices in the metro area." This is despite the fact that housing production in TOD neighborhoods also increased a rate that exceeded the metro average.<sup>88</sup>

GAO's report summarizes the effect of increasing home values and rents on the supply of existing affordable housing in TOD areas: "Increased land and housing values can raise the market price of for-sale and rental housing beyond an affordable percentage for households at or below an area's median household income, thus reducing the availability of market rate affordable housing."<sup>89</sup>

Renters, who comprise more than two-thirds of the households living near transit stations, are especially vulnerable to sharp increases in housing costs.<sup>90</sup>

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<sup>85</sup> "Primary cities" are defined as "the first named city in each metropolitan area (the largest), plus other incorporated places in the metro area name with populations of at least 100,000." (Source: *State of Metropolitan America: On the Front Lines of Demographic Transformation*, 17.)

<sup>86</sup> *Ibid.*, 48.

<sup>87</sup> *Affordable Housing in Transit-Oriented Development: Key Practices Could Enhance Recent Collaboration Efforts Between DOTFTA and HUD*, Report to the Chairman, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies, Committee on Appropriations, U.S. House of Representatives (Washington, DC: United States Government Accountability Office, September 1, 2009), 12–13, <http://www.gao.gov/products/GAO-09-871>.

<sup>88</sup> Pollack, Bluestone, and Billingham, *Maintaining Diversity in America's Transit-rich Neighborhoods: Tools for Equitable Neighborhood Change.*, 22–23.

<sup>89</sup> *Affordable Housing in Transit-Oriented Development: Key Practices Could Enhance Recent Collaboration Efforts Between DOTFTA and HUD*, 14.

<sup>90</sup> Pollack, Bluestone, and Billingham, *Maintaining Diversity in America's Transit-rich Neighborhoods: Tools for Equitable Neighborhood Change.*, 11.

The most effective way to address the challenge of rising real estate values near transit (including existing and planned transit) is to reserve property for equitable development, either by acquiring it before prices begin to rise, or by requiring market-rate developers to set aside some units for affordable housing and other community services. Absent these types of interventions, there is a real risk that “virtually all new development near transit... will be unaffordable to lower-income households.”<sup>91</sup>

### ***III. The Need for Equitable TOD***

The availability of affordable housing and other critical community infrastructure near transit is not simply a matter of meeting demand – though estimates from CTOD show that 1/3 of total demand for TOD over the next 30 years will come from households with incomes below \$20,000/year.<sup>92</sup> Locating these services near transit (or locating new transit lines in areas where these services already exist) is a strategic way to lower monthly household costs and improve access to employment, education, and other opportunities for low-income families.

In 2009, nearly 19.5 million households – 17 percent of all households in the U.S. – were severely cost burdened, meaning they spent more than 50 percent of their income on housing costs.<sup>93</sup> The affordability challenge is particularly acute for renter households, more than a quarter of whom are severely cost burdened. Interestingly, while the housing cost burden is largely shouldered by the nation’s low-income population, a recent report from the Joint Center for Housing Studies at Harvard University shows that more and more moderate-income households are facing affordability challenges.<sup>94</sup>

The growing affordability crisis is driven by three key factors. The first, most visible factor is income loss. From 2008-9, the number of employed U.S. civilians fell from 146 million to 140.6 million.<sup>95</sup> During the same year, median household income fell by about 4 percent, from \$52,029 to \$50,042, and the number of households in poverty grew from 39.8M million to 43.6 million.<sup>96</sup>

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<sup>91</sup> Belzer et al., *The Case for Mixed-Income Transit-Oriented Development in the Denver Region*, 2.

<sup>92</sup> *Preserving and Promoting Diverse Transit-Oriented Neighborhoods*, 2.

<sup>93</sup> *The State of the Nation’s Housing 2011* (Cambridge, MA: Joint Center for Housing Studies of Harvard University, 2011), 27, <http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/son2011.pdf>.

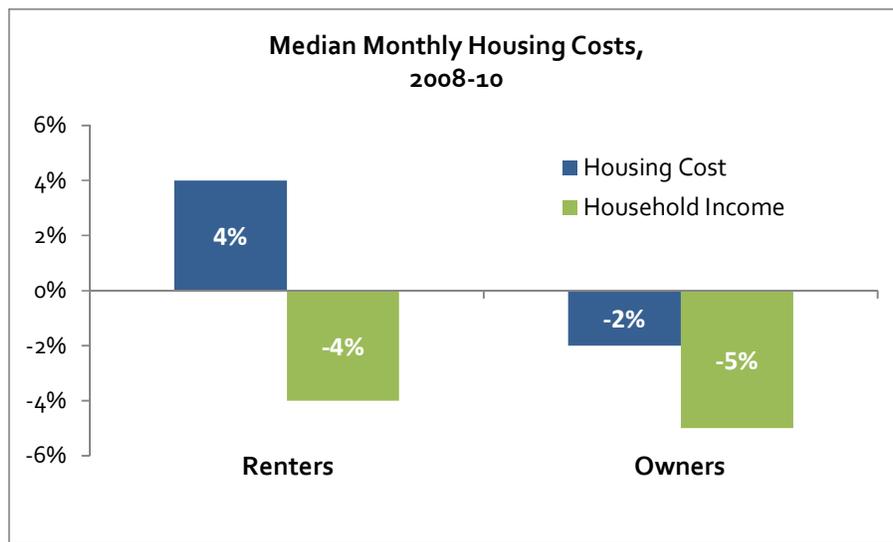
<sup>94</sup> *Ibid.*

<sup>95</sup> Author analysis of U.S. Census data.

<sup>96</sup> ‘Income, Poverty, and Health Insurance Summary Measures: 1999-2009’ (United States Census Bureau, n.d.), [www.census.gov/newsroom/releases/xls/summary\\_measures.xls](http://www.census.gov/newsroom/releases/xls/summary_measures.xls).

Macro-level changes in income and employment partially explain why the number of housing burdened renter households grew by more than 34 percent from 2008-9. Stabilized rents in most markets across the U.S. – and increasing rents in seven high-demand metro areas – further exacerbated the affordability challenge.<sup>97</sup> The interaction of these factors is depicted in Figure 4 below, which shows that in the two years from 2008-10, renters faced growing housing costs at the same time that their income decreased.

**Figure 4. Median Monthly Housing Costs, 2008-10<sup>98</sup>**

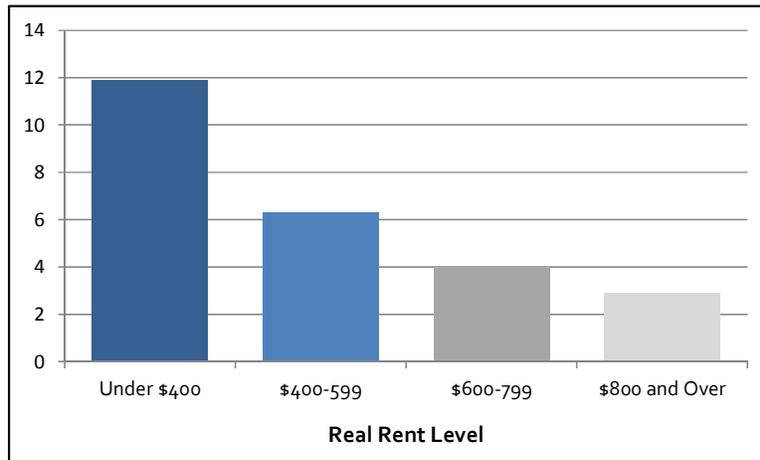


But recent changes in rent and income do not tell the full story of the affordable housing crisis in the U.S.: as Figure 5 on the following page illustrates, the country lost a significant share of its supply of affordable rental housing over the decade from 1999-2009.

<sup>97</sup> *The State of the Nation's Housing 2011*, 21.

<sup>98</sup> Laura Williams, *Housing Landscape 2012: An Annual Look at the Housing Affordability Challenges of America's Working Households*. (Washington, DC: Center for Housing Policy, February 1, 2012), <http://www.nhc.org/media/files/Landscape2012.pdf>.

**Figure 5. Share of 1999 Low-Cost Rental Units Permanently Removed from the Stock by 2009 (Percent)<sup>99</sup>**



The growing gap between housing costs and household income has important implications for household spending. According to the Joint Center for Housing Studies, “after devoting more than half their monthly outlays to rent, families with children in the bottom expenditure quartile on average had only \$593 left to cover all other expenses.”<sup>100</sup> These expenses include food, childcare, healthcare, education, and, importantly, transportation.

Recent research has shown that the geographic location of a family’s home has a significant impact on the share of its remaining funds that must be dedicated to transportation costs. In a 2008 report for the Brookings Institution, Elizabeth Roberto finds that “The combined costs of commuting and housing make up a larger portion of the household budgets of the working poor than other households... For households in the lowest one-fifth of the income distribution, spending on housing, transportation, and food jumps to 71 cents of every dollar (40, 15, and 16 cents, respectively).”<sup>101</sup> This echoes previous research from the Center on Housing Policy that found a 15 percent increase in transportation costs as a portion of household income for working poor families

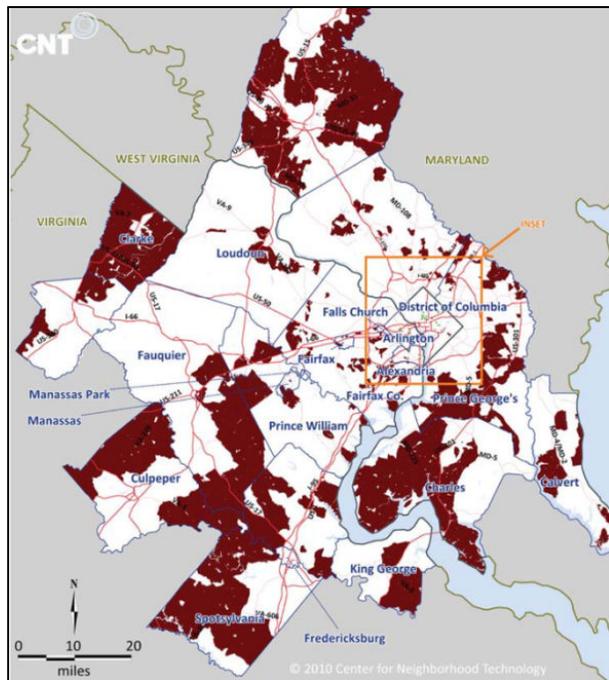
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<sup>99</sup> *The State of the Nation’s Housing 2011*, 26.

<sup>100</sup> *Ibid.*, 28.

<sup>101</sup> It should be noted that recent research from the Brookings Institution has found that nearly half of jobs in the country’s largest metro areas are located more than 10 miles from the downtown area. Only about 20% of jobs in the metro area are located within three miles of downtown. (See A. Tomer et al., *Missed Opportunity: Transit and Jobs in Metropolitan America* (Washington, DC: Brookings Institution, May 1, 2011), 3.

living far from job centers versus those living in the central city. (Housing costs remain unchanged as a share of total income.)<sup>102</sup>



**Figure 6: Changes in affordability with expanded definition of housing + transportation**

Source: CTOD, 2011

This map of the Washington, DC metro area identifies (in red) neighborhoods where average housing costs are affordable (< 30% of AMI) but the combined costs of housing plus transportation are not affordable (> 45% of AMI).

As a low-income household's combined cost of housing and transportation increases, its ability to cover other essential expenses declines proportionately, putting the family at greater

risk of homelessness, poor health<sup>103</sup>, poor education outcomes<sup>104</sup>, and a host of other social and economic ills. The reverse is also true: households that have the financial resources necessary to meet their basic needs experience better outcomes. One research team examining the effects of housing subsidies on low-income households found that “children in low-income families that receive housing subsidies are more likely to have access to an adequate amount of nutritious food and to meet ‘well child’ criteria than children in similar families on the waiting list for housing assistance.”<sup>105</sup>

Locating affordable housing in transit-rich areas is an important strategy to enable low-income families to lower their combined costs of housing and transportation, but it only addresses one side of the equation. It is equally important that key destinations (e.g., workplaces, child care centers, schools, social service agencies) are located near transit.

<sup>102</sup> Barbara Lipman, *A Heavy Load: The Combined Housing and Transportation Burdens of Working Families*. (Washington, DC: Center for Housing Policy, October 2006).

<sup>103</sup> Rebecca Cohen, *The Impacts of Affordable Housing on Health: A Research Summary* (Washington, DC: Center for Housing Policy, May 1, 2011), [http://www.nhc.org/media/files/Insights\\_HousingAndHealthBrief.pdf](http://www.nhc.org/media/files/Insights_HousingAndHealthBrief.pdf).

<sup>104</sup> Maya Brennan, *The Impacts of Affordable Housing on Education: A Research Summary* (Washington, DC: Center for Housing Policy, May 1, 2011), [http://www.nhc.org/media/files/Insights\\_HousingAndEducationBrief.pdf](http://www.nhc.org/media/files/Insights_HousingAndEducationBrief.pdf).

<sup>105</sup> *Ibid.*, 1.

Recent research from the Brookings Institution has shown that there is a growing distance between the places where low-income households work and where they live, particularly as low-income households move further away from job centers in search of more affordable housing:

Employment requires mobility. Workers need transportation to jobs and child care centers and other services that make work possible... Studies have found that the longer the commute, the less likely someone is to be employed, and increasing job accessibility could increase employment. The bottom line is that many workers have the education and experience to fill available jobs throughout the region but are limited by their options to reach them.<sup>106</sup>

By locating more affordable housing in job centers and improving access to transit in affordable neighborhoods, TOD is a promising strategy to improve access to economic opportunity for low-income households. Unfortunately, as the next chapter shows, there are significant barriers to financing the development of equitable TOD. These must be addressed in order to expand the share of transit-oriented affordable housing and other community services that are available for low- to moderate-income households.

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<sup>106</sup> Roberto, *Commuting to Opportunity: The Working Poor and Commuting in the United States.*, 5.

## 4. THE CHALLENGE: FINANCING EQUITABLE TOD

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Transit-oriented development offers many benefits to residents, local economies, and local governments, but it is also difficult to implement. *Equitable* TOD is particularly challenging for two related reasons: first, it is very expensive to build, and as a result, it is difficult to finance. The higher costs associated with TOD increase the gap between the cash flow generated by affordable residential and commercial rents (project income) and the total development cost of the project (project expense), leading to significant challenges in project financing. The difficulty of accessing and assembling public and private financing to support equitable TOD projects has resulted in most TOD projects to date serving the needs of upper-income households.

### *I. TOD Is Expensive*

#### **Acquisition and Predevelopment Costs**

As described earlier, a primary challenge facing TOD project developers is rapidly appreciating land values. High land acquisition costs, which are excluded from the eligible basis of Low Income House Tax Credit (LIHTC) awards, make it extremely difficult to finance the development of mixed-income housing. The availability of suitable land for development is also a challenge. In many well-developed, transit-rich areas, the only remaining underutilized parcels are smaller infill sites or large industrial areas. These parcels are less expensive to acquire than ready-to-develop land, but often developers must piece them together to create a lot that is large enough to support the minimal number of housing units and/or commercial space necessary to absorb the fixed cost of land. Infill sites may also require demolition and/or environmental remediation, both of which are time-intensive, expensive processes.

In addition, although the preferred pattern of development around transit stations is typically dense, mixed-use (allowing for a mix of residential, retail, and commercial uses), this is rarely the zoning in place before a development project begins. Most metropolitan areas, including center cities but especially suburbs, have in place zoning requirements that limit integrated land uses and restrict a development's density, floor area ratio, height, and/or lot coverage, while requiring minimum building setbacks and parking requirements. These requirements are fundamentally incompatible with the goals of dense, mixed use development inherent in TOD. As a result,

developers must pursue zoning changes or variances, a process which can be lengthy and contentious, leading to a protracted development timeline and increased carrying costs.<sup>107</sup>

The challenges outlined above lead to longer development timelines and higher carrying costs, which in turn increase projects' total development costs.

### **Construction Costs**

The drive to integrate residential and commercial uses in a single mixed-use TOD project presents several design challenges that lead to increased construction costs. For example, the typical depth of housing and commercial units is not the same, forcing designers to find creative solutions to the “stacking problem.” There are also typically differences in framing techniques, foundation requirements, and mechanical and plumbing systems. In addition, varying requirements for security, heating and ventilation, and fire prevention strategies make it difficult to standardize the design and construction of these features throughout a mixed-use building. As one study put it, “if costs are to be controlled, designers of each product type must find shared-use solutions within the mixed-use structure and address the many and conflicting use-specific requirements.”<sup>108</sup> The process of designing and building a mixed-used TOD is thus much more complex than a standard single-use project, leading to increased hard and soft costs in the construction budget.

Another factor contributing to high construction costs for TOD projects is the need for investments in site infrastructure to support denser development. Necessary infrastructure improvements can include increasing the capacity of water and sewage lines, installing additional utility cables, and improving stormwater drainage systems.<sup>109</sup> In addition, surface parking lots must often be replaced by structured parking, at a cost of approximately \$20,000 per space.<sup>110</sup> While funds for infrastructure improvements have historically come from local, state, and federal sources, the recent economic crisis has severely limited the availability of public funds for all but the most

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<sup>107</sup> *Fostering Equitable and Sustainable Transit-Oriented Development: Briefing Papers for a Convening on Transit-Oriented Development.*

<sup>108</sup> Marie Venner and Liisa Ecola, ‘Financing Transit-Oriented Development: Understanding and Overcoming Obstacles’, *Transportation Research Record: Journal of the Transportation Research Board* 1996, no. -1 (January 1, 2007): 18.

<sup>109</sup> *Financing Transit-Oriented Development in the San Francisco Bay Area Policy Options and Strategies* (Washington, DC: Reconnecting America, August 2008), 15.

<sup>110</sup> *Realizing the Potential: Expanding Housing Opportunities Near Transit* (Washington, DC: Center for Transit-Oriented Development, April 2007), 12–13.

critical infrastructure projects.<sup>111</sup> The increased capital costs associated with infrastructure improvements are thus reflected in higher construction costs for TOD projects.

The high costs of acquiring and developing projects in TOD areas create a situation in which “high-end housing projects are best suited for absorbing the time, uncertainty, and cost of risk inherent in TOD.”<sup>112</sup> The many public subsidies and creative financing mechanisms that currently exist to provide debt, equity, and gap financing for community development projects in high-cost areas are not well-suited to overcome the specific challenges associated with equitable TOD projects.

## ***II. The Current Community Development Finance System Is Not Designed for TOD***

The underfunded, decentralized, and diffuse U.S. community development finance system is ill-equipped to address the significant and complex financial needs of equitable TOD projects. The simple fact is that the system was not designed to support these kinds of projects; rather, it is an artifact of two major shifts in U.S. housing and community development policy over the past eighty years: first, the creation of the housing finance system discussed in Chapter 2, which fueled the suburbanization of the U.S. in the mid-20<sup>th</sup> century and demonstrated the scale of the federal government’s potential impact on development patterns; and second, the deregulation and defunding of federal housing and community development programs in the 1980s, which left in its wake a “networked institution” of public agencies, private companies, and nonprofit organizations that work together to meet the need for affordable housing and other vital community infrastructure. The product of these shifts is a community development finance system whose development priorities and funding allocation processes are fundamentally incompatible with the goal of realizing equitable TOD.

### **From New Deal to Reaganomics: Community Development Policy, 1930s-1980s**

As described in Chapter Two, the private housing finance system built in the 1930s and 40s had a profound and lasting impact on the spatial organization of housing, employment, retail, and other critical community infrastructure. During this time, as Calthorpe notes, “government not only subsidized the infrastructure of the suburbs and financed the housing but also paid for its zoning

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<sup>111</sup> Cezary Podkul, ‘With U.S. Infrastructure Aging, Public Funds Scant, More Projects Going Private - The Washington Post’, *Washington Post*, October 17, 2011, [http://www.washingtonpost.com/business/with-us-infrastructure-aging-public-funds-scant-more-projects-going-private/2011/10/17/gIQAGTuv4L\\_story.html](http://www.washingtonpost.com/business/with-us-infrastructure-aging-public-funds-scant-more-projects-going-private/2011/10/17/gIQAGTuv4L_story.html).

<sup>112</sup> *Transit-Oriented for All: The Case for Mixed-Income Transit-Oriented Communities in the Bay Area* (San Francisco, CA: Great Communities Collaborative, June 1, 2007), 14.

through a large federal grant program.”<sup>113</sup> Large-scale changes to development patterns during this time period are notable for two additional reasons: first, they marked the first time in history that community infrastructure was planned and developed without regard to the availability of public transit; and second, they set an important precedent for the role of federal housing and economic policies in influencing the nation’s spatial organization and urban form.

The severing of the infrastructural link between land use and transportation in the mid-20<sup>th</sup> century was reflected in the organization of the federal agencies charged with overseeing national housing, economic development, and transportation programs. The majority of these programs were established as part of Lyndon Johnson’s “Great Society” in the 1960s.

When Johnson assumed the Presidency in 1964, he faced a nation that was sharply divided along geographic, racial, and economic lines. The federal housing and economic policies that enabled the suburbanization of the country’s middle and upper classes were helping drive these divisions by creating large concentrations of poor households in the inner cities, a disproportionate number of whom were people of color. Unwilling to accept these conditions – and, perhaps more importantly, faced with a growing number of riots and social unrest in urban areas across the country – Johnson introduced a slew of legislative proposals aimed at addressing such issues as civil rights, poverty, education, and healthcare. During his six years as President, Johnson signed into law several significant changes to federal housing and transportation policy.

In 1965, the Department of Housing and Urban Development Act established HUD as a cabinet level agency. The creation of this agency enabled the concentration of nearly all housing-related federal programs (excluding rural housing programs, housing assistance for veterans, and tax incentive programs) in one department. It also created an administrative home for several programs that came later in Johnson’s presidency, including: the landmark Fair Housing Act of 1968, which prohibited discrimination in the sale and rental of housing, in the provision of mortgage brokering services, and in the development of local zoning; the Housing and Urban Development Act of 1968, which established the Government National Mortgage Association (Ginnie Mae) and helped expand access to affordable housing; and the Brooke Amendment to the 1968 Act, which capped the rent for low-income families living in public housing at 25% of their income (later increased to 30%). Together, these policies helped meet Johnson’s goal of providing “the basic necessities of a decent home and healthy surroundings for every American family now imprisoned in the squalor of the

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<sup>113</sup> Calthorpe, *Urbanism in the Age of Climate Change*, 35.

slums.”<sup>114</sup> They also reflected a general sense in Washington that “the federal government had an obligation to lift up poor communities.”<sup>115</sup>

Johnson’s efforts to address transportation issues were equally significant. In 1964, he signed into law the Urban Mass Transportation Act, considered to be the country’s first effort to provide federal assistance for public transportation in urban areas. The purpose of the Act was “to encourage the planning and establishment of area-wide urban mass transportation systems needed for economical and desirable urban development.”<sup>116</sup> The act called for the commitment of federal matching funds for large-scale urban public or private rail projects and created the Urban Mass Transit Administration (UMTA), which was authorized to provide capital grants for up to 50% of the cost of transit improvements. Interestingly, because it dealt specifically with investments in transit systems in urban areas, UMTA was placed within HUD when the department was created in 1965.

Three years later, Johnson consolidated the nation’s 30 plus transportation agencies into a cabinet-level Department of Transportation charged with “coordinating and effectively managing transportation programs, providing leadership in the resolution of transportation problems, and developing national transportation policies and programs.”<sup>117</sup> While there was some discussion at the Cabinet level regarding the need for integrated land use and transportation planning and thus some debate over the proper home for UMTA, Johnson ultimately decided in July 1968 to transfer responsibility for all mass transit programs to DOT.<sup>118</sup> This act was effectively the nail in the coffin of integrated land use and transportation planning in the U.S.

By the time Johnson’s presidency concluded in 1969, he had succeeded in creating an extensive social welfare system, including a number of well-funded community development programs, and a strong, centralized transportation department. Over the next decade, as the economy slowed, political support for centralized community development programs began to wane. After years of

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<sup>114</sup> United States President’s Committee on Urban Housing, *A Decent Home: The Report of the President’s Committee on Urban Housing* (For sale by the Supt. of Docs., U.S. Govt. Print. Off., 1969).

<sup>115</sup> David James Erickson, *The Housing Policy Revolution: Networks and Neighborhoods* (Washington, DC: Urban Institute Press, 2009), 7.

<sup>116</sup> E. Weiner, ‘History of Urban Transportation Planning’, *National Transportation Library*, 1992, <http://ntl.bts.gov/data/Chapter%203.pdf>.

<sup>117</sup> ‘The United States Department of Transportation:’, *U.S. Department of Transportation Office of the Historian*, n.d., <http://ntl.bts.gov/historian/history.htm>.

<sup>118</sup> For a longer discussion of this process, see George Smerk, ‘Development of Federal Urban Mass Transportation Policy’, *Indiana Law Journal* 47, no. 2 (1972): 249–292.

debate over the appropriate role of the federal government in helping finance the development and ongoing operations of affordable housing, in 1974, President Nixon signed the Housing and Community Development Act. This Act established two programs that remain critical to the nation's community development finance system: the Community Development Block Grant program, which provides flexible funds to state and local governments to support programs aimed at affordable housing, poverty, infrastructure, and other community development needs; and the Section 8 program, which provides local housing authorities with deep subsidies for rental assistance to low-income households.

The establishment of the CDBG program was a milestone in the history of U.S. community development policy. "More than simply providing new funds," one scholar writes, "the CDBG program started a trend in government finance that pointed to a new future."<sup>119</sup> In the 1980s, under the tight-fisted Reagan administration, the shape of this new future came into focus.

The dramatic effects of Reagan's administration on the field of community development can be summarized in one statistic: In the 1980s, HUD's budget authority was cut by more than 70%.<sup>120</sup> As a result of this draconian measure and others like it, writes Schwartz, "The federal government is no longer the preeminent player in U.S. housing policy."<sup>121</sup> In place of the highly centralized programs, like public housing, that dominated housing policy in the 1960s, Reagan introduced a number of "block grants that give states and localities much more latitude to devise their own programs."<sup>122</sup> Reagan-era policies also paved the way for the expanded role of the private sector in financing community development projects through tax incentive programs such as the Low Income Housing Tax Credit program.

The primary long-term effect of Regan's devolution policy was to shift primary responsibility for housing and community development issues to state and local agencies. The result was the development of "an extremely broad array"<sup>123</sup> of locally-designed and funded housing and community development programs, along with an explosion in the number of nonprofit community development organizations. Today, these programs and organizations are the backbone of the national community development finance system.

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<sup>119</sup> Erickson, *The Housing Policy Revolution*.

<sup>120</sup> Schwartz, *Housing Policy in the United States*, 45.

<sup>121</sup> *Ibid*, 209.

<sup>122</sup> *Ibid*.

<sup>123</sup> *Ibid*, 210.

## Implications

In his well-received 2009 book, *The Housing Policy Revolution: Networks and Neighborhoods*, David Erickson argues that the deregulation of federal housing programs in 1980s gave rise to the development of a “networked institution” of CDCs, new government entities, capacity-building intermediaries, private firms, philanthropic foundations, and other institutions involved in community development. This operational structure of this institution represented a compromise between the opposing philosophies of big government and market control that had been battling at the federal level for the past twenty years. The network, Erickson writes,

... was market-like in that it had multiple actors responding to market signals (e.g., price of land and construction, tenants’ ability to pay, and mortgage interest rates). But it was largely federally funded and represented an expansion of government policy and influence too; the network became a hybrid governance structure that forged together federal and subnational government, housing activists, and the private sector into an alliance.<sup>124</sup>

Over the last fifteen years, the institutionalized network model has shown “how it [can] be all things to all people, which helps explain why so many members of Congress – across the political spectrum, from large and small cities – [find] it an easy program to defend and promote.”<sup>125</sup>

The extensive, decentralized, hybrid network that Erickson describes possesses “a sense-and-respond capability reminiscent of developers in the marketplace”<sup>126</sup> and has enabled the production of thousands of affordable housing units over the past twenty years. Indeed, the community development network has proven remarkably adept at exploiting opportunities for affordable housing development in the face of enormous macroeconomic challenges (i.e., the housing market crash and the lingering economic recession). However, as noted at the beginning of this chapter, the majority of TOD projects undertaken in this country target upper-income residents and shoppers, revealing an importance weakness of the networked institution model: no matter how mission-driven and innovative its individual participants may be, as an institution, it is bound to the whims of the private real estate and credit markets.

There are two reasons for this weakness, related respectively to the community development finance system’s development priorities and its funding allocation processes. First, while some individual states and municipalities have made strong commitments to equitable TOD, the lack of a

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<sup>124</sup> Erickson, *The Housing Policy Revolution*, 146–7.

<sup>125</sup> *Ibid.*, 125.

<sup>126</sup> *Ibid.*, 128.

comprehensive federal community development policy that integrates housing and land use planning and incentivizes investment in transit-rich locations limits the potential for equitable TOD at the national scale. Absent such a policy environment and incentive structure, it is unsurprising that developers in many regions are unlikely to pursue higher-cost projects in transit-accessible locations. (In fact, in states whose tax credit allocation plans place a high priority on low total development costs, it may be that TOD projects are simply financially infeasible to develop.)

The second weakness in the institutionalized network model is its decentralized, often misaligned funding allocation processes, which are not well-suited to the demands of complex TOD deal structures. A primary challenge in this regard is of course the separation of federal funding for transportation and community development projects. The current process for awarding federal New Starts<sup>127</sup> grants, for example, “works to the disadvantage of TOD, as often the location of a planned station maximizes transit service and access, but doesn’t necessarily maximize the development potential of sites along the corridor or considers the access needs of existing residents.”<sup>128</sup>

Even within the field of community development, most sources of subsidized finance are land use-specific (e.g., dedicated to affordable housing or small business development or healthcare facility construction), so developers of mixed-use projects must access multiple funding streams to finance a single project. Sometimes, though, there are restrictions on this type of layered finance. For example, federal tax laws restrict the combination of the two most widely used federal financing mechanisms for affordable rental housing and community economic development (LIHTC and NMTC, respectively). Developers who seek to construct mixed-use TOD projects are forced to establish two or more separate ownership structures, or else find a way to finance the construction of one portion of the development with market-rate financing.

Finally, even when funding sources are easier to layer, such as LIHTC awards and many local grant programs, they are often awarded by different agencies, using different criteria, on different timelines. This challenge confronts developers in non-transit-accessible locations as well, but the time-sensitive nature of TOD deals makes it a more pressing problem. A related challenge for equitable TOD is that most funding decisions are made on a project-by-project basis, without taking into account the larger geographic or temporal context in which a deal might exist.

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<sup>127</sup> New Starts, a competitive grant program administered by FTA, is the primary source of federal funding for locally-planned, implemented, and operated transit guideway capital investments.

<sup>128</sup> *Fostering Equitable and Sustainable Transit-Oriented Development: Briefing Papers for a Convening on Transit-Oriented Development.*, 9.

The myriad challenges to securing financing for equitable TOD have severely limited the scale of its development, even though research has demonstrated its many benefits to residents and society. In response to this dilemma, a handful of innovative community development finance practitioners around the country have experimented with new ways of assembling and delivering financial products that facilitate investment in TOD. The next chapter considers the cases of the TOD Funds recently established to serve this purpose in the City of Denver and the San Francisco Bay Area.

## 5. CASE STUDIES: HOW TOD FUNDS RESPONDED

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This chapter describes the history, purpose, and structure of the Denver TOD Fund and the San Francisco Bay Area Transit-Oriented Affordable Housing (TOAH) Fund. It also includes an assessment of the funds' successes and challenges to date, and a summary of their respective aspirations for the future. This chapter lays the groundwork for an analysis of the funds' impact on the community development finance system as a whole, which will be discussed in the following chapter.

### *I. History and Context*

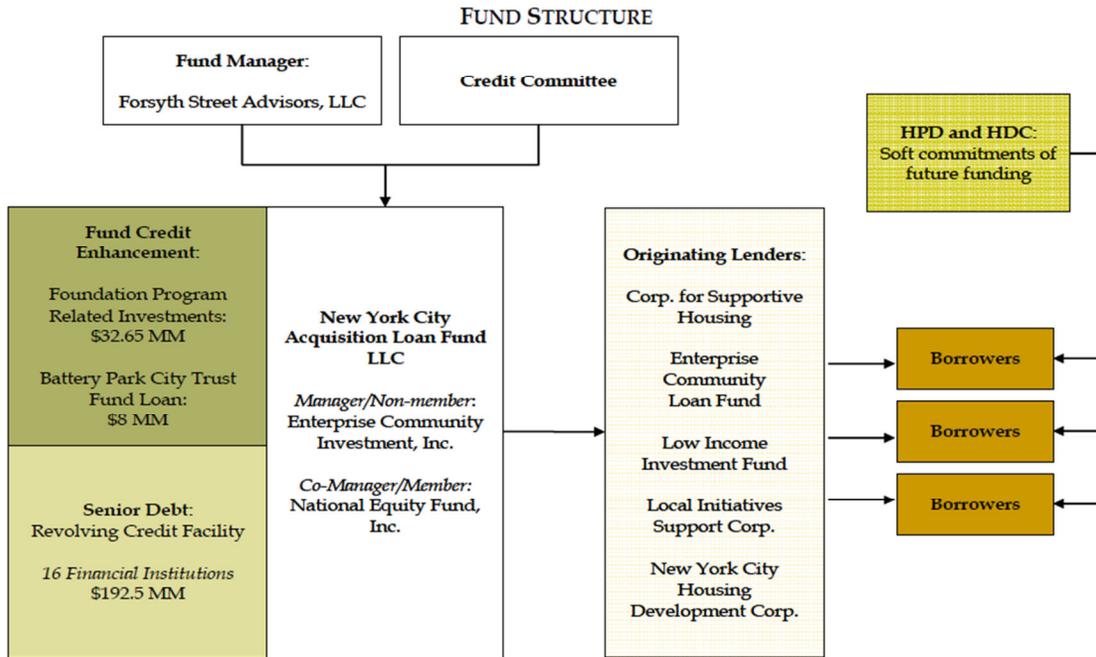
The idea of creating a public-private financing mechanism to facilitate development of affordable housing in high cost real estate markets pre-dates the Denver and Bay Area TOD Funds by several years. In the early to mid-2000s, as real estate prices soared in metro areas around the country, mission-driven developers faced substantial challenges in accessing sufficient capital to acquire and hold property for (re)development. Within this context, affordable housing property acquisition funds emerged “as an innovative, socially responsible investment tool... to allow affordable housing developers to secure land as opportunities arise and before traditional affordable housing financing mechanisms become available.”<sup>129</sup> One of earliest and most significant of these funds is the New York City Acquisition Fund, which was launched in 2006.

The goal of the \$265 million New York City Acquisition Fund is to facilitate the preservation and development of affordable housing by providing short-term loans for acquisition and predevelopment. The fund was developed in response to two threats to the city's supply of affordable housing. First, the city's supply of *in rem* properties – properties taken for back taxes that were often rehabilitated or redeveloped into affordable housing – was dwindling. At the same time, property values across New York City were appreciating rapidly, making it difficult for affordable housing developers to compete for high potential acquisitions on the open market. Concerned about this situation's potential impact on low-income families in New York, a group of foundations came together to develop a fund structure that would use low-interest PRIs and a loan from the city to create a guarantee pool, that would then allow private banks and other financial institutions to provide revolving letters of credit to supply the necessary lending capital. (See Figure 7.)

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<sup>129</sup> Srivastava et al., *CDFIs and TOD*, 34.

**Figure 7. Fund Structure of the New York Acquisition Fund<sup>130</sup>**



Key participants in Fund include Enterprise Community Partners, which helped assemble reserves and letters of credit for the Fund’s guarantee facility; the City Department of Housing Preservation and Development (HCD), which committed \$8M in reserves to the guarantee pool; and various private lenders, who together provided more than \$190M in lending capacity.<sup>131</sup> Over the course of its six years in operation, the Fund has invested more than \$150 million in the preservation or development of 4,384 units of affordable housing throughout New York City.

The New York City Acquisition Fund is considered to be “the model for most of the free-standing funds of significant size that followed.”<sup>132</sup> Indeed, when reflecting on the process of developing the Denver TOD Fund, which in fact has a very different structure from the New York Fund, Melinda Pollack, noted, “We were basically adapting the NY and LA Fund Acquisition Models. They’d done a good job of layering capital to mitigate risk for acquisition in some really hot markets.”<sup>133</sup> Likewise,

<sup>130</sup> *New York City Acquisition Fund - Program Summary*, Brochure (New York, NY: Forsyth Street Advisors LLC, March 13, 2007), [http://primakers.net/files/New\\_York\\_City\\_Aquisition\\_Fund\\_Program\\_Summary\\_for\\_Foundations\\_%283-13-07%29.pdf](http://primakers.net/files/New_York_City_Aquisition_Fund_Program_Summary_for_Foundations_%283-13-07%29.pdf).

<sup>131</sup> Srivastava et al., *CDFIs and TOD*, 35–6.

<sup>132</sup> *Ibid*, 36.

<sup>133</sup> Melinda Pollack, interview by author, Cambridge, MA, March 20, 2012.

Robin Hacke, Director of Capital Formation at Living Cities, acknowledges that the Bay Area TOD Fund is “in some ways a product of the New York Acquisition Fund.”<sup>134</sup>

The Denver and Bay Area TOD Funds were designed to serve similar purposes to the New York and other affordable housing acquisition funds. The key difference, of course, was the proximity of transit to the properties the TOD funds sought to acquire. As discussed in the previous chapter, transit proximity creates several specific development finance challenges, including higher predevelopment and acquisition costs, longer holding periods, and greater risk. The goal of the TOD Funds, then, was “to provide a product to the market that was more flexible and more readily available so [mission-driven] developers could be competitive in the market.”<sup>135</sup> As described below, the two Funds accomplished this goal in different ways, but each has made an important impact on the availability of patient, flexible capital for equitable TOD projects in its target geography.

## ***II. Denver TOD Fund***

In 2009, Enterprise Community Partners, Denver-based nonprofit Urban Land Conservancy, and the City and County of Denver, together with several local and national philanthropies, announced the launch of the nation’s first ever TOD fund dedicated to affordable housing. The \$15 million Denver Transit-Oriented Development Fund was created in response to a large-scale public investment in expanding metro Denver’s public transportation system. (In 2009, there were five new light rail lines under construction in metro Denver.) The Fund was designed to create and preserve at least 1,000 affordable homes along current and future transit corridors in the City of Denver. The ultimate goal of this effort was to help lower the combined cost of housing and transit for working families while improving their access to employment, educational opportunities, and community services.

### *History*

In 2004, voters in the Denver metropolitan area approved ballot measure calling for a \$4.7 billion expansion to the regional transportation infrastructure. The ballot measure called for increased sales tax revenue to fund the construction of five new light rail lines, including 119 miles of new “FasTracks” and 70 new transit stations, over the next decade. Supporters of the ballot measure

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<sup>134</sup> Robin Hacke, interview by author, Cambridge, MA, March 18, 2012.

<sup>135</sup> Noni Ramos, interview by author, Cambridge, MA, March 9, 2012.

claimed that “clustering growth around transit stations could stimulate development of the type of neighborhoods Denver Metro residents desire.”<sup>136</sup> Staff at Enterprise Community Partners, a national affordable housing nonprofit with a local office in Denver, agreed that the FasTracks build-out offered an opportunity, but also foresaw great risks. As Noni Ramos, Chief Lending Officer at Enterprise Community Loan Fund, told me, “When transit agencies make [land use] decisions, their effects on low income communities are not always at the top of the list of considerations. The real estate ramifications of expansion of transit can be quite detrimental for low-to-moderate income communities – can drive up acquisition costs, gentrify areas, make it very difficult for the communities we care about.”<sup>137</sup> In anticipation of these risks, Enterprise took a leadership role in advocating for a range of strategies and interventions to protect and promote transit-accessible affordable housing.

Reflecting on Enterprise’s role in launching the TOD Fund, Melinda Pollack, Vice President for Solutions at Enterprise, said, “For better or worse, Enterprise was really in a role, with a few core partners, of shepherding the fund and creating a belief in the need for the Fund from its start.”<sup>138</sup> In 2006, Enterprise commissioned a national TOD think tank, the Center for Transit-Oriented Development (CTOD), to publish a report documenting the need for mixed-income TOD in the Denver region. This report, aptly entitled, “The Case for Mixed-Income Transit-Oriented Development in the Denver Region,” quantifies regional demand for housing near transit, reviews the benefits of mixed-income TOD districts, identifies the barriers to developing such districts, and suggests several strategies for overcoming these barriers, beginning with the establishment of a TOD Affordable Housing Acquisition Fund.<sup>139</sup> The purpose of such a fund would be to “enable the early purchase of property around transit – before speculative pressures kick in – to safeguard land for affordable and mixed-income housing. The fund could also acquire existing housing and require that it be kept affordable in perpetuity in neighborhoods that may become gentrified...”<sup>140</sup> At the time of the CTOD study, there was no source of “patient capital” to finance the sort of buy-and-hold deals described in the report. The report thus became an important tool for Enterprise to use in advocating for the development of a TOD acquisition fund.

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<sup>136</sup> *Transit-Oriented Development Strategic Plan* (Denver, CO: Department of community Planning and Development, City of Denver, August 2, 2006), 6, <http://www.denvergov.org/Portals/193/documents/full%20tod%20st%20plan%20.pdf>.

<sup>137</sup> Ramos, interview.

<sup>138</sup> Pollack, interview.

<sup>139</sup> Belzer et al., *The Case for Mixed-Income Transit-Oriented Development in the Denver Region*, 3.

<sup>140</sup> *Ibid.*, 27.

While CTOD was working on the TOD white paper, Enterprise began building support for the idea of a TOD Fund among key local partners, including the Denver Office of Economic Development, the Department of Community Development and Planning, the Denver Office of Strategic Partnerships, and the Urban Land Conservancy, a Denver-based nonprofit established in 2003 to acquire, develop and preserve community assets. According to Dace West, Director of the Denver Office of Strategic Partnerships, Enterprise believed that a TOD acquisition fund would “allow us to take advantage of changing markets in our communities, especially with the build-out of FasTrack.”<sup>141</sup> In particular, Enterprise was interested in adapting the land acquisition fund models that had been established in New York and Los Angeles to the Denver market. The process of defining what exactly the fund would look like in Denver was a two-year journey, focused mainly on determining how the fund would be capitalized and how it would operate once launched.

The first step in the process was to determine what type of financing would be most useful to developers in the Denver region, and what types of capital were required to make such financing possible. According to Pollack, “we learned that what we needed to do was stretch the terms as long as possible and get the interest rate as low as possible.”<sup>142</sup> Unfortunately, the idea of a long-term, low-interest acquisition loan fund was not particularly attractive to potential investors. “They said, we’ve never done anything more than a 3-year acquisition loan, so if you want to do that, you have to give us a borrower whose financial strength we can underwrite.”<sup>143</sup> This requirement shifted Enterprise’s conception of the Fund away from a structured fund model like the New York or Los Angeles funds and toward a sole borrower model. Luckily, ULC had an exceptionally strong balance sheet that met investor’s criteria regarding liquidity and other financial performance measures. Debra Bustos, Director of Real Estate for ULC, reflects that after investors expressed concern about the structured fund model, “The whole conversation and focus shifted for us, from being a \$1M investor to being the sole borrower. Eventually we ended up contributing \$1.5 million, so now we’re a whole 10 percent of the fund, in addition to being the only organization that can buy and hold the land.”<sup>144</sup>

At the same time that negotiations were underway to finalize the structure of the TOD Fund, Enterprise was actively searching for investors to capitalize the fund. After the City’s economic

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<sup>141</sup> Dace West, interview by author, Cambridge, MA, March 19, 2012.

<sup>142</sup> Pollack, interview.

<sup>143</sup> Ibid.

<sup>144</sup> Debra Bustos, interview by author, Cambridge, MA, March 22, 2012.

development and planning offices were unable to contribute top loss funds, Pollack turned to West's office. "At the time, we were doing a lot of work around federal and national competitive grants. When the MacArthur grant opportunity came up<sup>145</sup>, we felt like it was an opportunity to kickstart something – it would bring a national partner to the table and help get the fund out to the size where it would be meaningful here."<sup>146</sup> West and her colleagues in the Office of Economic Development agreed that if they received the grant from MacArthur, they would provide the top loss capital necessary to make the TOD Fund a reality. In February, 2009, MacArthur awarded Enterprise Community Partners a \$2 million PRI to capitalize the TOD Fund, in addition to providing the City of Denver with a \$250,000 grant to support fund development expenses. Once the MacArthur funds were secured, the City of Denver provided a \$2.5 million grant investment to serve as the Denver TOD Fund's source of top loss capital. \$2 million of the grant was funded by proceeds from the city's franchise agreement with Xcel Energy.

The final stage of the fund's development focused on determining its purpose and eligible uses. A key challenge at this point was reconciling the different interests of all of the Fund's investors.

Every investor had their own piece they were interested in: MacArthur focuses on preservation, Rose Community Foundation wanted to be sure there was senior housing, ULC cares about the risk profile. From the city's perspective, we were looking at not just the creation of affordable housing, but housing for extremely low income populations (30 percent AMI or less). Navigating those interests and realities, within the parameters that Enterprise has as a lender – all of that was complex and took a long time.<sup>147</sup>

Ultimately, the parties agreed that the Fund would focus on rental properties affordable to households at 60 percent AMI and below, and that it would strive to make at least 15 percent of the 1,000 units affordable to households at 30 percent AMI and below.

### *Fund Overview*

The purpose of the Denver TOD Fund is to support the creation and preservation of over 1,000 affordable housing units through strategic property acquisition in current and future transit corridors. In addition to MacArthur Foundation and the City of Denver, key contributors to the Fund include the Colorado Housing Finance Agency (CHFA), Rose Community Foundation, Enterprise Community Loan Fund (with Wells Fargo and US Bank), and the Mile High Community

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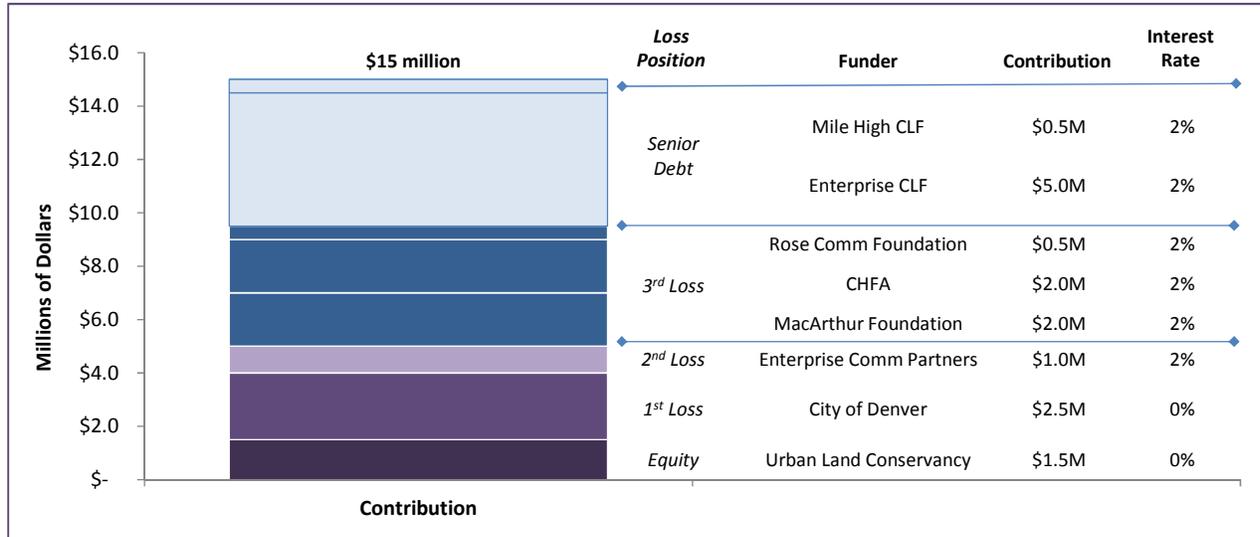
<sup>145</sup> In November 2007, the MacArthur Foundation issued an RFP to state and local governments to compete for \$35 million in grants and low-interest loans to preserve and improve affordable rental housing. This funding was part of a national \$150 million initiative, Window of Opportunity: Preserving Affordable Rental Housing.

<sup>146</sup> West, interview.

<sup>147</sup> Ibid.

Loan Fund. Figure 8 below indicates each funder’s position in the waterfall as well as their required interest rate.

**Figure 8. Denver TOD Fund Waterfall**



The Fund’s financial model is simple: it works with only one borrower, ULC, and offers one product, a 3-5 year low-interest acquisition loan at 90 percent loan-to-value. (The current interest rate is 3.5 percent). Funds may be used to acquire three different types of properties:

1. Existing federally-assisted rental properties (e.g., project-based section 8 properties);
2. Existing unsubsidized, below-market rate rental properties
3. Vacant or commercial properties to be converted to new affordable housing (up to 25 percent of available funds)<sup>148</sup>

Once ULC identifies a property for acquisition, Enterprise Community Loan Fund, in its role as Fund Administrator, underwrites the deal. If it is approved, funds are released to ULC to finance the acquisition. While this model differs from its predecessors in New York and LA, it serves its purpose equally well. “It basically allows ULC to go to the market and look for opportunities or potential new sites and lock up real estate. And then ULC can go through whatever process; for example, transfer the site to a developer that then finances it all the way through.”<sup>149</sup> The simplicity of the financial model on the lender side, while critical to the fund’s establishment, masks the complexity involved on ULC’s side.

<sup>148</sup> Debra Bustos, ‘Denver TOD Fund Activity Update: Preserving Affordable Housing Near Transit’ (PowerPoint presented at the Greater Boston Working Session on TOD, Boston, MA, March 14, 2012).

<sup>149</sup> Ramos, interview.

When ULC acquires a site, it faces two important risks. The first is that it will not be able to find a developer partner that can secure the take-out financing necessary to execute a development plan on the site. “In that case,” says Bustos, “we need to figure something else out – find another developer, develop it ourselves, or use our own money to pay back the Fund.” The second risk is that a site will require additional investment above and beyond the purchase price that ULC will not be able to recover from the developer. “For each property we purchase, if we’re holding it, then in addition to the 10 percent equity that we originally invested in the property for the purchase price, we also incur the acquisition and predevelopment costs and all the holding costs,” notes Bustos. To the extent that ULC is able to cover those costs internally, it reduces the overall cost to the developer and improves the project’s affordability. Fortunately, over the past two years, the Denver region has been awarded two competitive grants from the U.S. Department of Housing and Urban Development’s Office of Sustainable Housing and Communities<sup>150</sup> that ULC has been able to access to cover some of the unexpected costs associated with acquiring and holding land for future development. (These include a \$3.0M Challenge Grant to the City and County of Denver<sup>151</sup> and a \$4.5M Sustainable Community Regional Planning Grant for the Denver region.<sup>152</sup>)

On the other hand, acting as the sole borrower of the TOD Fund also has mission-related benefits for ULC, in that it allows the organization to put in place long-term ground leases that hold land in conservancy, or to place land use restrictions on properties that require them to serve a community benefit for 89 years. Bustos adds that ULC’s emphasis on long-term community benefits helps attract public investment for the long-term financing of affordable housing: “Even after the [TOD] Fund is in and out of the deal, if a municipality invests CDBG funds or HOME funds or whatever, they know their investment will stay there, instead of putting it in a project and the project fails and some investor comes and swoops it up and the public dollars are lost.”<sup>153</sup>

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<sup>150</sup> OSHC’s mission is to create strong, sustainable communities by connecting housing to jobs, fostering local innovation, and helping to build a clean energy economy. The office is particularly interested in coordinating investments in housing and transportation with local land use decisions “in order to reduce transportation costs for families, improve housing affordability, save energy, and increase access to housing and employment opportunities.” (Source: ‘Sustainable Housing Communities/U.S. Department of Housing and Urban Development (HUD)’, n.d., [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/sustainable\\_housing\\_communities](http://portal.hud.gov/hudportal/HUD?src=/program_offices/sustainable_housing_communities).)

<sup>151</sup> ‘HUD FY2010 Community Challenge Planning Grants Summaries’ (U.S. Department of Housing and Urban Development, n.d.), [http://portal.hud.gov/hudportal/documents/huddoc?id=FY10\\_ComChallPlanGrantSum.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=FY10_ComChallPlanGrantSum.pdf).

<sup>152</sup> ‘HUD FY2011 Sustainable Communities Grantees’ (U.S. Department of Housing and Urban Development, n.d.), [http://portal.hud.gov/hudportal/documents/huddoc?id=SUM\\_OF\\_FY11REGPLANGRANTS.PDF](http://portal.hud.gov/hudportal/documents/huddoc?id=SUM_OF_FY11REGPLANGRANTS.PDF).

<sup>153</sup> Bustos, interview.

*The Fund in Action: Local Successes and Challenges*

In the two years that it has been operational, the Denver TOD Fund has closed on six deals totaling close to \$9.2 million. These deals include the preservation of two existing affordable housing developments (52 units total at a cost of \$3.1M) and the acquisition of four vacant land parcels adjacent or near to quality public transit (5.6 acres total at a cost of \$6.1M). The key characteristics of each deal are summarized in Figure 9 below.

**Figure 9. Summary of Denver TOD Fund Deals, 2009-present**

RAW LAND				
Site	Acreage	Acquisition Cost	Development Plan	Expected TDC
Yale Light Rail Station	1.2 acres	\$1.325M	Part of master station area development (with regional transit authority and private developer). ULC's site will feature 100 affordable units and up to 30K sq ft of commercial.	\$20M
Mile High Vista	2 acres	\$2.14M	ULC serving as master developer. Site to include a new 30k sq ft public library, 80 affordable units, and 10K sq ft of nonprofit commercial space	\$25M
Delaware Station	.96 acre	\$1.2M	50 units of affordable housing (30-60% AMI) and up to 7,100 sq ft of retail and commercial space	\$12M
Blake TOD	1.4 acres	\$1.4M	Plans TBD (purchased November 2011)	
PRESERVATION				
Property	Units / Other	Acquisition Cost	Development Plan	Expected TDC
Dahlia Apartments	36 units (2 BR)	\$1.75M	Repairs and upgrades	n/a
Villa TOD	16 units plus 7,400 sq ft of commercial	\$1.35M	Repairs and housing services programs	n/a

The TOD Fund has been successful not only in its goal of buying and holding high-potential properties, but also in several other respects. First, the fund has been extremely effective in leveraging its limited dollars to attract additional public and private investment. As indicated above, the Denver TOD Fund's \$4.7M investment in three vacant sites (Yale Light Rail Station, Mile High Vista, and Delaware Station) has leveraged \$57M in public and private investments in affordable housing and other community-oriented infrastructure. "I'm proud that the fund in a lot of ways was the foot in the door to for additional state and federal resources that followed," commented Melinda Pollack.<sup>154</sup> Direct public investments in development projects are not the only monies the Fund has helped trigger, though: the Fund was also critical to Denver's ability to secure

<sup>154</sup> Pollack, interview.

grant funding from HUD's Office of Sustainable Housing and Communities: "It's been able to show that we have something happening here."<sup>155</sup>

In fact, as the TOD Fund has gained greater recognition in the Denver region, local actors have shown increased interest in collaborating with ULC on larger-scale development projects. In fact, two of the TOD Fund's land acquisitions – Yale and Mile High Vista – have been incorporated into master developments in collaboration with various public and private partners. The Mile High Vista site, in particular, is a source of pride for Debra Bustos. Sited in a Business Improvement District along West Colfax Avenue, the longest street in the U.S., the 2-acre project will feature a 30,000 square foot new public library, 80 units of affordable housing, and 10,000 square feet of nonprofit commercial space. Each piece of the project will be developed by a separate partner, but ULC has agreed to serve as the master developer. "The City really wanted us to take on that role, especially to make the necessary infrastructure investments that would make the whole thing more cost effective for everyone."<sup>156</sup> ULC, which had never served as a master developer before, hired a project manager to oversee the process. Bustos believes that the collaborative, comprehensive approach to TOD exhibited in the Mile High Vista project has many benefits. "It starts to become complimentary – there's more green space, then some bike paths – there's much more investment, and more alignment of that investment."<sup>157</sup>

Melinda Pollack notes that the TOD Fund has not only led to increased collaboration on the development side, but has also improved Enterprise and ULC's relationships with key policymakers. "A few years ago, we had to fight hard to get to the table. Now, we're regularly welcomed to talk to leaders across the region." The relationships that Enterprise, ULC, and other key partners in the fund have forged with public agencies and officials have created a ripple effect across the region. The city of Denver is now home to several innovative collaborative efforts, including the West Corridor TOD Working Group and the Mile High Connects, aimed at concentrated investments in new development around transit stations.<sup>158</sup>

While the Denver TOD Fund has had many successes, it has also faced significant challenges, the most significant of which is the dearth of attractive preservation properties available for

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<sup>155</sup> Ibid.

<sup>156</sup> Bustos, interview.

<sup>157</sup> Ibid.

<sup>158</sup> Melinda Pollack, 'Denver Initiatives Around Mixed-Income TOD', June 21, 2011, 25, <http://www.reconnectingamerica.org/news-center/reconnecting-america-news/2011/understanding-mixed-income-transit-oriented-development/>.

acquisition. “The hardest thing,” says Pollack, “is not seeing solid preservation opportunities. We scaled and structured the fund to rely on preservation so most of ULC’s holdings would be break-even propositions at worst.” This challenge stems from two problems: first, the generally poor quality of the affordable housing available in the Denver market, and second, changes in the market leading to fluctuating property values. The housing quality issue, Pollack notes, “helps us make the case that affordability is not the only problem.” This sets the stage for efforts to increase public investment in affordable housing development. Regarding the volatile real estate market, Dace West says, “The supply side was different than we had anticipated.” Bustos notes that the maximum loan size allowed by the fund (\$3M) “wasn’t enough to buy big properties – we just weren’t able to compete [with for-profit developers].” On the other hand, “we were able to be ahead of the game in land acquisition, which in some ways is great, because you can create new housing right at transit.” Unfortunately, raw land acquisition is also much riskier for ULC.

As originally structured, the Denver Fund set a 25 percent cap on the amount of funds that could be directed toward land acquisition, with the intention that 75 percent of the funds would be invested in revenue-generating preservation properties. As the TOD Fund’s portfolio approaches the 25% cap, ULC takes on greater risk and exposure. While the funds directed to ULC from the HUD Challenge Grant have helped to cover some of the predevelopment and carrying costs associated with acquired sites, Bustos warns, “Ultimately, there are limits on how much land we can acquire.”

A final, related challenge for the Denver TOD Fund is the limited availability of take-out financing for local affordable housing development. Because the City’s allocation of Low-Income Housing Tax Credits is small and alternative sources of permanent financing are few and far between, there are typically only a handful of affordable housing deals that move into construction each year.<sup>159</sup> This places additional stress on ULC’s portfolio, as it limits the likelihood that the organization will be able to move more than one or two properties off its balance sheet each year.

Despite the challenges that the TOD Fund has encountered over the past two years, Pollack believes the Fund’s future is bright. “The field has gotten much more sophisticated in the four years since we started thinking about this. I can’t promise what will happen in the future, but there’s just much more expanded thinking.”

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<sup>159</sup> Srivastava et al., *CDFIs and TOD*.

## *The Future of the Fund*

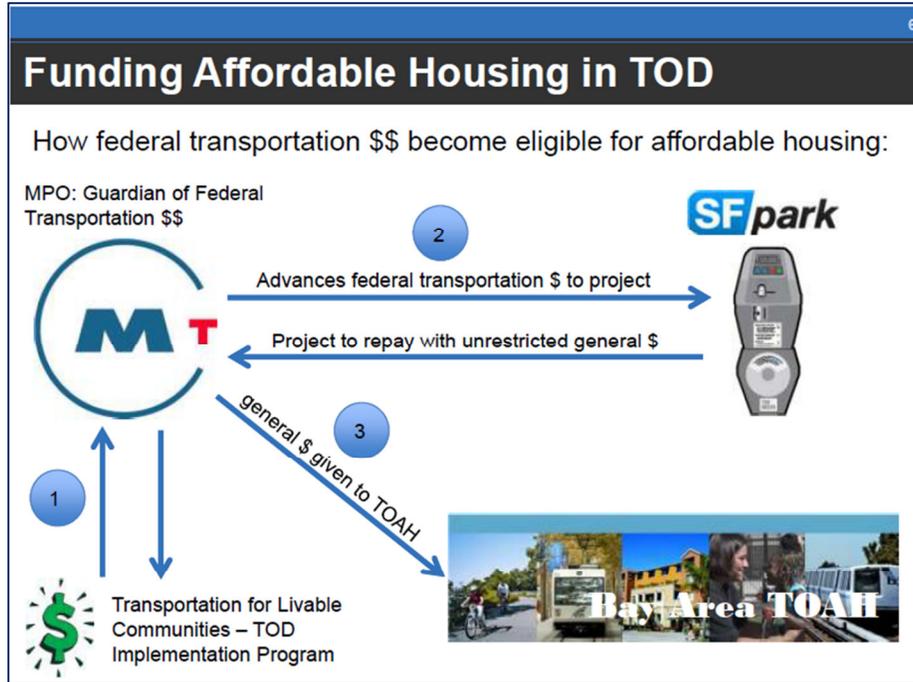
Among ULC and Enterprise's aspirations for the future of the Denver TOD Fund are a larger geographic scale, a bigger pot of funding (\$25 million), and a greater diversity of financial products. In addition, while the fund is already involved in deals that feature more than just affordable housing, another goal for the future is to formally incorporate mixed use projects. All of these changes are driven by demand from the local community. For example, Bustos notes, "Right now, I can only use the Fund in the City of Denver, but there are so many opportunities along the rail lines leading out from the city... And there are numerous neighboring municipalities calling us, inquiring about the Fund, trying to figure out how we can use it in their area."

One strategy that Enterprise and ULC are currently pursuing to expand their work beyond Denver's city limits is to partner directly with local municipalities to invest their transportation funds in "mini pools" that the TOD Fund can then use for local property and land acquisitions. This appears to be a promising strategy, Bustos says. "It's just going to take a little longer this way."

Another promising strategy the Fund has pursued to augment its development capacity is partnering with Denver's regional transit agency, the Regional Transportation District (RTD), to pursue joint development projects. These projects allow ULC and other partners in the TOD Fund to work with RTD to integrate land use and development planning around specific sites. (The Yale Station project described above is an example of such a partnership.)

These efforts, while important, are not enough to significantly expand the Fund's scale and geographic reach. As was the case years earlier, the critical question is where the top loss funding will come from. An initial strategy pursued by Enterprise and ULC was to approach the RTD to request a grant investment similar to the one made by the MTC in California. Unfortunately, the relatively complex process required to dedicate federal transportation funds to local community development projects is not yet one that DRCOGS is willing to undertake (see Figure 10, following page). In addition, explains Pollack, "there was a perception here that we were trying to utilize transportation dollars for housing in an environment where there aren't enough transportation dollars, so that makes it a hard sell."

**Figure 10: Overview of Process to Commit Formerly Federal MTC Funds to Bay Area Fund<sup>160</sup>**



### ***III. Bay Area Transit-Oriented Affordable Housing Fund***

The \$50 million San Francisco Bay Area Transit-Oriented Affordable Housing Fund (Bay Area Fund) was launched in mid-2011 with the mission of promoting equitable TOD across the nine-county Bay Area by catalyzing the development of affordable housing, community services, fresh foods markets and other neighborhood assets. The Fund is extremely flexible: it is open to all types of developers; offers five different financial products; supports residential, commercial, and other community-oriented uses; and operates across the nine-county Bay Area. Despite the Fund’s youth and limited lending experience (to date, it has closed two deals), its unique and promising model has nonetheless garnered national attention. Regions as diverse as Washington, DC; Boston, MA; and the Twin Cities are considering launching similar funds. In this section, I review the history,

<sup>160</sup> “TOD Property Acquisition Processes and Examples: Developing Property Acquisition Funds for Affordable Housing” (PowerPoint presented at the Puget Sound Regional Council Affordable Housing Steering Committee, Seattle, WA, November 1, 2011), 6, [http://www.psrc.org/assets/6935/TOD\\_Property\\_Acquisition\\_-\\_Examples\\_and\\_Processes\\_in\\_Other\\_Places.pdf](http://www.psrc.org/assets/6935/TOD_Property_Acquisition_-_Examples_and_Processes_in_Other_Places.pdf).

purpose, and structure of the Bay Area Fund in order to enable a robust analysis in the following chapter of the Fund's potential as a tool to ensure equitable TOD.

### *History*

The origins of the Bay Area Fund can be found in the establishment of the Great Communities Collaborative (GCC) in 2006. Comprised of four Bay Area nonprofit organizations (Greenbelt Alliance, TransForm, Urban Habitat, and the Nonprofit Housing Association of Northern California), the national nonprofit Reconnecting America, and several local foundations (The East Bay Community Foundation, the San Francisco Foundation and the Silicon Valley Community Foundation), the GCC is "dedicated to ensuring that the San Francisco Bay Area is made up of healthy, thriving neighborhoods that are affordable to all and linked to regional opportunities by a premier transit network."<sup>161</sup> That the GCC operates at a regional scale is a key reason for the Bay Area Bay Area Fund's 9-county reach.

The GCC's interest in equitable TOD stems from a concern that the region's historical approach to addressing the housing needs of low- and moderate income families was both inequitable and environmentally unsustainable. Early research commissioned by the GCC notes, for example:

"Relatively affordable housing is increasingly built outside the region altogether – if not at the region's edges – in cities like Tracy and other parts of the Central Valley, as well as Brentwood, Oakley, Antioch and Fairfield – where regional transit is limited and employment centers distant. In job-rich areas, cities have consistently under-produced their share of regional housing demand, contributing to surging prices and shortages of housing affordable to moderate, low and very-low income households."<sup>162</sup>

This growth pattern had led not only to high rates of neighborhood income segregation but also some of the longest commutes and worst traffic conditions in the nation.<sup>163</sup> Reflecting on these challenging conditions, the GCC committed to a goal of "ensur[ing] half of all new homes built by 2030 are in walkable communities located near transit, at a range of prices affordable to families of all income levels."<sup>164</sup>

Initially, the GCC's work focused on its members' core areas of activity: policy, planning, advocacy, and community outreach. Soon, however, it became clear that supportive zoning and land use policies were necessary but not sufficient conditions to ensure equitable TOD. The ability to

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<sup>161</sup> 'Great Communities Collaborative - About GCC', n.d., <http://www.greatcommunities.org/about-gcc/>.

<sup>162</sup> *Transit-Oriented for All: The Case for Mixed-Income Transit-Oriented Communities in the Bay Area*, 7.

<sup>163</sup> *Ibid.*, 6.

<sup>164</sup> *Ibid.*, 4.

influence or control local land use decisions – that is, to shape development goals before a shovel was put in the ground – was critical to GCC’s ability to realize its goal of equitable TOD. The challenge was the limited (in fact, nearly nonexistent) supply of capital to buy and hold land for the purpose of developing affordable housing near transit. The GCC’s desire to address this challenge led it to pursue a multi-year, research-intensive process of making the case for equitable TOD and generating proposals for how such development might be achieved.

In June 2007, the GCC published a landmark report, *Transit-Oriented For All*, which highlighted the opportunities presented by investments in equitable TOD. This report helped focus regional attention on the need for mixed-income transit-oriented communities and the types of political and financial resources necessary to make them a reality. Later that year, in preparation for a convening of interested nonprofits, funders, and public agencies, Bay Area LISC prepared a discussion paper containing an overview of different types of property acquisition funds around the country. As consensus grew around the need for an innovative tool to finance land acquisition, the GCC asked CTOD and Bay Area LISC to create a working group to determine the specific type of fund necessary to achieve the collaborative’s goals. In November 2008, CTOD and LISC published the committee’s initial findings in a white paper entitled, “Mixed Income TOD Acquisition Fund: Business Plan Framework.” This report served as a framing document for approaching potential investors, with the understanding that additional research and meetings would be necessary in order to develop a final business plan. Over the next year, as the GCC continued to convene interested stakeholders and pursue early funding conversations, CTOD led an intensive research process with public agency staff, local developers, and fund managers to flesh out the goals of the Fund. The result of this work was a January, 2010 document entitled, “San Francisco Bay Area Property Acquisition Fund for Equitable Transit-Oriented Development: Feasibility Assessment Report.” This report represented the culmination of GCC’s efforts to establish the opportunity for the development of an equitable TOD Fund in the Bay Area. The report recommended “the formation of a short-term structured loan fund modeled after the many existing funds pioneered by Enterprise and LIIF in other locations,” including Denver and New York.<sup>165</sup> The report also underscored the importance of identifying a public agency partner to provide the top loss funding necessary to kickstart the Fund.

At the same time the GCC was moving through its process, the Metropolitan Transit Commission (MTC) – the transportation planning, coordinating and financing agency for the nine-county San Francisco Bay Area – was researching opportunities to improve its Transportation for Livable

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<sup>165</sup> Srivastava et al., *CDFIs and TOD*, 41.

Communities (TLC) program. TLC was launched in 1998 to provide funding for projects that are developed through an inclusive community planning effort, provide for a range of transportation choices, and support connectivity between transportation investments and land uses.<sup>166</sup> An evaluation of the program's first ten years of operations revealed a need to "tighten the connection between TLC grants and TOD and infill projects."<sup>167</sup> As a result, in 2008, MTC hired CTOD and Reconnecting America to research potential options for financing TOD in the region. The final report recommended MTC "create a flexible TOD financing program that responds to different market conditions within the region and provides funding for a range of uses that help achieve regional goals."<sup>168</sup> Specifically, the report states, "MTC could meet a current gap in regional TOD and infill financing by supporting the assembly and entitlement of development projects."

CTOD's report set the stage for the critical role that MTC soon agreed to play in the formation of the Bay Area Bay Area Fund. In early 2010, MTC staff met with CTOD and members of the GCC to discuss the possibility of providing top loss funding to the SF Bay Area Fund. Guided by MTC's internal TOD Policy, which states that Planning for affordable housing in station areas is another significant issue [for MTC] due to the fact that lower income residents have a higher propensity to take transit,<sup>169</sup> the agency's board members agreed to participate in the Bay Area TOD Fund. By approving an innovative proposal that traded \$10M in use-restricted federal transportation funds currently sitting in the TLC account for \$10M in more flexible local transportation funds, MTC's board agreed to provide the GCC with the top loss grant investment it needed to launch the Bay Area Fund. The only caveat stipulated by the MTC was that the GCC needed to secure a 3:1 match on the \$10M investment.

Armed with a framework for what the TOD Fund would accomplish and a conditional funding commitment from the MTC, the GCC issued an RFP for a Fund Manager in January 2010. The Low Income Investment Fund (LIIF), a national CDFI with extensive experience in both community development and finance, brought together five other CDFIs (LIIF, Corporation for Supportive Housing, Enterprise Community Loan Fund, LISC, Northern California Community Loan Fund, and

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<sup>166</sup> 'Transportation for Livable Communities', *Metropolitan Transportation Commission*, n.d., [http://www.mtc.ca.gov/planning/smart\\_growth/tlc/](http://www.mtc.ca.gov/planning/smart_growth/tlc/).

<sup>167</sup> 'Ten Years of TLC: 2008 Evaluation & Recommendations', April 11, 2008, 11, [www.mtc.ca.gov/planning/smart\\_growth/tlc/tlc\\_eval/TLC\\_eval.ppt](http://www.mtc.ca.gov/planning/smart_growth/tlc/tlc_eval/TLC_eval.ppt).

<sup>168</sup> *Financing Transit-Oriented Development in the San Francisco Bay Area Policy Options and Strategies*, 5.

<sup>169</sup> 'Resolution 3434, Revised: Transit Oriented Development (TOD) Policy' (Metropolitan Transportation Commission, June 22, 2005), [http://www.mtc.ca.gov/planning/smart\\_growth/tod/Resolution\\_3434\\_memo.doc](http://www.mtc.ca.gov/planning/smart_growth/tod/Resolution_3434_memo.doc).

Opportunity Fund) to apply as a consortium. The GCC and MTC selected the consortium to manage the Fund. Each participating CDFI is eligible to originate loans through the Fund.

Once selected as the Fund Manager, the CDFI consortium moved forward with the process of developing a formal business plan to guide the Bay Area Fund. The purpose of this short but intensive process – it lasted from July to December 2010 – was to gather feedback from key partners to determine how the Fund should function on the ground, and the gain consensus among the funders about how the fund should operate financially. Brian Prater, LIIF’s Managing Director for the Western Region, says, “If you think about it, this all started with the GCC... those initial reports were very helpful from a macro perspective, and then once we got the RFP, then it was time to get very, very specific and try to operationalize the concepts and needs that were talked about in those papers. That was our role – to take the baton from the representatives of the GCC and figure out, what is it really going to be.”

A key priority during this process was determining the types of financial products and terms that would be offered to developers. “It’s like taking a standard affordable housing acquisition loan product and looking at it like silly putty to see how you can stretch it in different ways.”<sup>170</sup> The Funds organizers understood the importance of providing longer term loans, at lower interest rates, and higher loan-to-value ratios in order to make possible the kinds of TOD projects that they hoped to support. But, as Amy Chung, Senior Investment Officer at Living Cities, put it, “There’s a challenge in creating products that provide enough flexibility for developers but also give lenders some comfort that they’ll be repaid. We spent a lot of time thinking about the terms [for TOAH’s products]... because usually the box is a lot tighter.”

While determining the types of financial products the Fund should offer was one key aspect of the business planning process, Prater notes that it was not the only one.

The other discussion we had was changing the paradigm a little bit and looking at a good TOD project and all the different ways to touch it – like, what are the things that that project needs above and beyond just affordable housing... You might have a big project that’s mixed use, that has a childcare center in it, or a fresh food market, or a federally qualified health center, or another neighborhood amenity that’s really useful. We wanted to be sure the fund wasn’t just about housing – it was about looking at the neighborhood and seeing a complete community and how we could touch that.

After Prater and his colleagues had a clear understanding of the types of financial products the Fund would offer and the types of projects it would support, it was time for the participating

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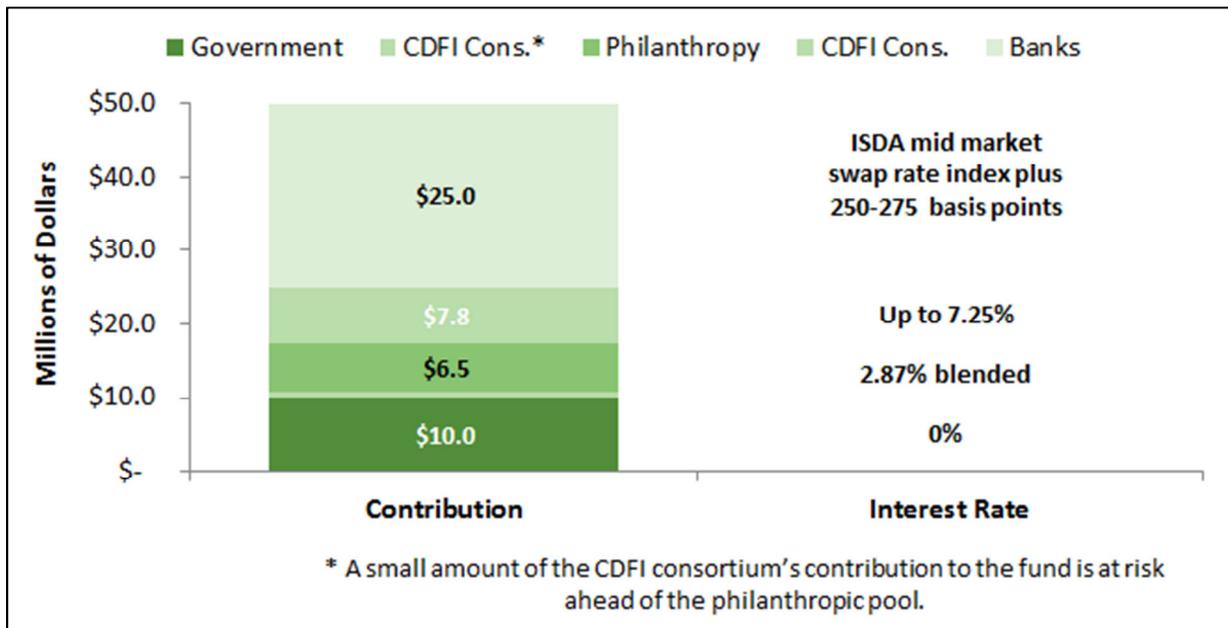
<sup>170</sup> Ibid.

fundors to agree on the formal structure of the fund, including the waterfall, governance structure, terms of financing, underwriting criteria for different products, and even the sustainability plan for the Fund itself. According to Prater, the process was intense and arduous, but relatively straight forward. “We put it all in black and white, discussed it, argued about it, and eventually everyone signed off, and then we went into legal documents.” The Fund formally launched in March, 2011, at a size of \$50M.

*Fund Overview*

The mission of the Bay Area Bay Area Fund is to promote equitable transit-oriented development (TOD) across the nine-county Bay Area by catalyzing the development of affordable housing, community services, fresh foods markets and other neighborhood assets. The Fund’s contributors, in addition to the MTC and the originating CDFIs, include two foundations (Ford Foundation, San Francisco Foundation), the Living Cities philanthropic collaborative, and two banks (Morgan Stanley, Citi). The Silicon Valley Community Foundation was also an important partner, providing grant funding to support the Fund’s startup costs. Figure 11 below indicates each funder’s position in the waterfall as well as their required interest rate.

**Figure 11. Bay Area Fund Waterfall**



The Bay Area Fund offers five financial products, two of which are housing-specific (acquisition and predevelopment loans), two of which are economic-development-specific (construction-to-mini-perm loans and NMTC leveraged loans), and one which can be used for both types of projects (construction bridge loans). The details of each product are summarized in Figure 12 on the following page.

To be eligible for a TOAH loan, projects must meet three main criteria. First, they must be located in a Priority Development Area (PDA). PDAs were identified by the MTC and the Association of Bay Area Governments (ABAG) as areas with a demonstrated commitment to increase the availability of housing and services and encourage pedestrian-friendly environments served by public transit. Second, they must demonstrate support from a local public agency – preferably in the form of a cash contribution or commitment representing 10 percent of the project cost (e.g., acquisition cost for an acquisition loan), or a Letter of Support. Project sponsors may be nonprofits, for-profits, government agencies, or joint ventures, as long as they have a “track record of developing affordable housing or other projects that meet a community need.”<sup>171</sup> Finally, project sponsors must contribute 10 percent equity at closing. For nonprofits, this may include subordinate soft debt, grants, or land equity. For for-profits, the equity must be in the form of a cash contribution.

To access the Fund, a developer applies directly to one of the six originating CDFIs. Jeff Oberdorfer, Executive Director of First Community Housing, one of the first borrowers from the Bay Area Fund, says this structure works well from his perspective.

For us, [the way we accessed the fund] was no different than the way we get any other loan because we went through the Opportunity Fund, who is a partner in the Bay Area Fund. The people at Opportunity Fund know us well – we’ve borrowed from them before. [The TOAH process] is somewhat stricter and a little more bureaucratic as well – maybe because it was the first time they were doing it – but basically we did it through the Opportunity Fund and that facilitated the process.

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<sup>171</sup> ‘Eligibility’, *Bay Area TOAH*, n.d., <http://bayareatod.com/eligibility/>.

**Figure 12. Overview of Bay Area TOD Fund Products**

Product	Purpose	Key Terms
Acquisition Loans	Loan proceeds may be used for the acquisition of vacant land and/or real property and lot development expenses, including predevelopment expenses.	<ul style="list-style-type: none"> <li>• Maximum loan: \$7.5M, incl \$750K for predevelopment</li> <li>• Maximum LTV: 110% for nonprofits, 100% otherwise</li> <li>• Max term: 7 years</li> <li>• Interest rate: 4.5%, depending on loan term</li> </ul>
Predevelopment Loans	Loan proceeds may be used for a broad range of activities, including but not limited to: architecture, engineering, environmental studies, market studies, appraisals, site control expenses, escrow, title, and brokers fees, insurance, property taxes, site security, financing fees, and debt service expenses.	<ul style="list-style-type: none"> <li>• Maximum loan: \$750,000</li> <li>• Maximum LTV: 110% for nonprofits, 100% otherwise</li> <li>• Max term: 7 years</li> <li>• Interest rate: 4.5%, depending on loan term</li> </ul>
Construction Bridge Loans	Loan proceeds may be used to bridge construction funding to either larger or longer-term financing. New construction and rehabilitation projects are eligible.	<ul style="list-style-type: none"> <li>• Maximum loan: \$7.5M</li> <li>• Maximum LTV: 110% for nonprofits, 100% otherwise</li> <li>• Max term: 3 years</li> <li>• Interest rate: 6.0-7.0%, depending on loan term</li> </ul>
Construction-to-Mini Permanent Loans	Loan proceeds may be used for construction financing (new or rehabilitation) followed by a mini-permanent takeout. This product is primarily for community facilities, child care centers, and neighborhood retail, including fresh foods markets.	<ul style="list-style-type: none"> <li>• Maximum loan: \$7.5M</li> <li>• Maximum LTV: 90% for all borrowers</li> <li>• Max term: for construction: 2 years; for mini-perm: 5-6 years; total for both: 7 years</li> <li>• Interest rate: 4.5%, depending on loan term</li> </ul>
Leveraged Loans	Loan proceeds may be used to fund eligible predevelopment, acquisition, construction, and/or mini-permanent financing to leverage an investment into a New Market Tax Credit (NMTC) eligible transaction. This product is only used when the originating CDFI is providing NMTC allocation for the transaction.	<ul style="list-style-type: none"> <li>• Maximum loan: \$7.5M</li> <li>• Maximum LTV: n/a</li> <li>• Loan Term: Must be 7 years, to match terms of NMTC</li> <li>• Interest rate (2011): 6.5% - 7.5%</li> </ul>

Each loan that is made through the Fund has the same structural composition as the overall fund. In other words, because the fund’s waterfall is comprised of 50 percent commercial debt, 20 percent public grants, 17 percent CDFI funds, and 13 percent PRI funds, a developer who is approved for a \$1M loan receives \$170K from the originating CDFI and the remainder from the Bay Area Fund via LIIF, the Fund Administrator. Toby Lieberman, Affordable Housing Loan Program Director at Opportunity Fund, credits this feature of the Bay Area Fund as an important incentive for funders to participate. “When we come in on a loan, we only fund 17 percent of the proceeds – the rest of it is not mine, so my risk is mitigated and everyone has that. That helps everyone, in fact... It’s a wonderful way to provide a lot of money to a project but your risk is very minimal.”<sup>172</sup>

The process of approving loans is designed to be relatively simple, says Betina Dowdell, Vice President at Citi Community Capital. Because the commercial and philanthropic lenders in the Bay Area Fund do not have the time or capacity to underwrite individual deals, they all “worked hard at the outset to establish underwriting criteria that allow us to be comfortable that if a deal comes along and it meets those criteria, it automatically qualifies [for TOAH financing]. But we also wanted

<sup>172</sup> Toby Lieberman, interview by author, Cambridge, MA, March 16, 2012.

to be flexible, so if a deal doesn't meet all the criteria, it goes to our Credit Committee then we see what happens from there."<sup>173</sup>

*The Fund in Action: Local Successes and Challenges*

In its first year of operations, the San Francisco Bay Area Bay Area Fund has closed two deals totaling more than to \$10 million. Both deals involved acquisition loans to nonprofit developers seeking to create mixed-use affordable housing projects near existing transit station. The key characteristics of each deal are summarized in Figure 13.

**Figure 13. Overview of Bay Area Fund Projects (2011-present)**

Property	City	Current Use	Financing through TOAH	Development Plan
Eddy and Taylor Family Housing	San Francisco	Parking lot	\$7.1M acquisition loan	<ul style="list-style-type: none"> <li>• 153 affordable housing units</li> <li>• 12,000 sq ft of retail space</li> </ul>
Leigh Avenue Senior Apartments	San Jose	Vacant lot	\$3.0M acquisition loan	<ul style="list-style-type: none"> <li>• 64 units of affordable senior housing (35% of units reserved for chronically ill seniors)</li> <li>• Dental office</li> </ul>

For Brian Prater, the Fund's primary success is its ability to meet the "but for" test: but for the Bay Area Fund, certain projects would not have happened. This is particularly true in the case of the Eddy and Taylor Family Housing project, which is located just two blocks from a BART station and one of San Francisco's primary shopping districts, Union Square. The Housing project is part of a larger mixed use development that will be partially financed with NMTC through one of the Bay Area Fund's originating CDFIs. The Bay Area Fund was critical to the project's success in two ways: first, the acquisition loan enabled Tenderloin Neighborhood Development Corporation to secure the site. "Given the market pressure in that area, if you let go of that site, you wouldn't get it back," said Prater.<sup>174</sup> Second, the CDFIs in the fund were able to "help a project that everyone, including the mayor, feels is a very big deal. It's a \$140M project, so to be able to fill two critical needs in financing to get that deal done tells me that we did something right."<sup>175</sup>

A second major success for the Fund is that it has proven the mixed-use model. In Prater's words,

"It's about getting people's heads around the mixed use idea. Our first project [Eddy and Taylor Family Housing, described above] is actually a New Markets Tax Credit Deal under a housing deal. The ability to do that is really important. Housing is terrific and

<sup>173</sup> Betina Dowdell, interview by author, New York, NY, March 30, 2012.

<sup>174</sup> Brian Prater, interview by author, Boston, MA, March 14, 2012.

<sup>175</sup> Ibid.

affordable housing is a priority, but there are other things that neighborhoods need and you can't just have housing."<sup>176</sup>

The Bay Area Fund's success in financing mixed-use developments has inspired several regions across the country to begin exploring the creation of similar funds.

A third important achievement for the Bay Area Fund is its demonstration of the efficacy of a collaborative funding model. "I think the whole notion of cooperation among the public, for-profit, and nonprofit sectors – [the Bay Area Fund] is a real model for that... it makes a huge difference that goes beyond just what we're doing here with the early financing."<sup>177</sup> Robin Hacke, Director of Capital Formation at Living Cities, concurs.

"The lesson out of the New York Acquisition Fund, which you can also see here, is, when you have a fund like this, you concentrate people's energies, resources, and attention on a common definition of the problem and an approach. That's a real benefit of a structured fund because it takes it out of the realm of political decision-making or a particular administration, and it allows you to align public, private, nonprofit resources in ways that, if you can get the definitions right, are really useful."<sup>178</sup>

A related benefit, Lieberman observes, is the elimination of competition among CDFIs. "In this fund, there are two regional funders, but there's respect for our given clients and boundaries so we dispense with the competitive aspect and can focus on doing deals."<sup>179</sup> Given the extremely small margins on which affordable housing developers and community development finance organizations operate, the ability to increase efficiency and concentrate resources on the business of making deals is quite important.

By all accounts, the Bay Area Fund is an extremely well designed, well managed, highly functional Fund. Unfortunately, no amount of careful planning could prepare the Fund for the challenges brought by the state of California's budget crisis and the subsequent shuttering of its redevelopment agencies.<sup>180</sup> As Amy Chung of Living Cities put it, "It's really hard to put deals together when you do not know what subsidy is available and where it is coming from."<sup>181</sup> Jeff Oberdorfer, Executive Director of First Community Housing in San Jose, described the situation in

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<sup>176</sup> Ibid.

<sup>177</sup> Lieberman, interview.

<sup>178</sup> Hacke, interview.

<sup>179</sup> Lieberman, interview.

<sup>180</sup> In February 2011, a California Supreme Court ruling upheld two budget bills that effectively dissolved the state's 350 Redevelopment Agencies and recaptured the \$1.5 billion those agencies had reserved for affordable housing development. (Source: Jennifer Dockery, 'RDAs' Closure Shuts Door on Affordable Housing Development', *Novogradac Journal of Tax Credits* III, no. IV (April 2012), [http://www.novoco.com/journal/2012/04/news\\_lihtc\\_201204.php](http://www.novoco.com/journal/2012/04/news_lihtc_201204.php).)

<sup>181</sup> Amy Chung, interview by author, Cambridge, MA, March 13, 2012.

starker terms. “Affordable housing is basically dead right now. To use tax credits, you have to have gap financing, which usually were funds from the Redevelopment Agencies, and they no longer exist.” For Robin Hacke, the situation exposes a fundamental vulnerability in the nature of any private or quasi-private community development fund. “The ground shifts under these funds almost the minute they get created. The challenge has been and will continue to be navigating through challenging public policy realities.”<sup>182</sup>

#### ***IV. Conclusion***

Both the Denver and the San Francisco Bay Area TOD Funds have demonstrated success in achieving their goals: each has made available a new, more patient and flexible, less costly form of capital that has enabled local developers to finance important community development projects that would otherwise have been extremely difficult, if not impossible, to pursue. Ultimately, though, no matter how successful the funds are in deploying their capital, their physical impact on local communities is severely constrained by their small scale. For example, assuming that Denver’s \$15M fund revolves twice, it is only expected to create or preserve 1,000 units of affordable housing, which accounts for about 5 percent of the metropolitan region’s needs. The next chapter examines the relationship between the TOD Funds and the broader community development finance systems in which they exist in order to better understand the extent to which the funds have created an impact that surpasses the scale of their direct investments.

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<sup>182</sup> Hacke, interview.

## 6. ANALYSIS AND IMPLICATIONS: LEARNING FROM THE TOD FUNDS

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*“Whether a move toward more environmentally sustainable modes of living and transportation, in both cities and suburbs, will persist into the 2010s will depend on a range of factors. If recent history is any guide, public policy tools—both national and local in scope—will be needed to ensure that future development reflects the full range of its economic and environmental impacts on communities and society.”<sup>183</sup>*

The explicit goal of both the Denver and San Francisco Bay Area TOD Funds is to catalyze the development of transit-oriented affordable housing and other community assets within their defined geographic areas. As discussed in the previous chapter, both funds have demonstrated early success in meeting this goal. Unfortunately, the relatively small size of both funds severely limits the scale of their direct impact on local communities. Thus, an important implicit objective for both funds is to prove the existence of innovative, more effective ways of assembling and deploying community development capital, with the ultimate goal of influencing the structure and funding priorities of the broader community development finance system. In this way, the funds seek to have a significantly larger indirect effect on the supply of equitable TOD across the country.

This chapter begins with an assessment of the impact of the Denver and Bay Area TOD Funds on the availability of financing for equitable TOD at the local level. It argues that the funds have successfully shifted public and private funding allocation priorities within their respective geographies, leading to increased investment in equitable TOD. Next, the chapter presents an analysis of what changes are necessary at the level of the national community development finance system in order to make increased investment in TOD not just a priority but a reality.

### ***I. Key Effects of the TOD Funds on the Community Development Finance System***

This section analyzes the effects of the Denver and Bay Area TOD Funds on core elements of the community development finance systems in their respective geographies. Four key effects are identified: first, increased attention to and improved understanding of the need for equitable TOD; second, growing participation in TOD projects by key private and nonprofit financial institutions; third, leveraged public resources to create innovative new financial products; and fourth, improved alignment among public and private funding sources.

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<sup>183</sup> *State of Metropolitan America: On the Front Lines of Demographic Transformation*, 24.

### ***One: Increased attention to and understanding of the need for equitable TOD***

The importance of investment in equitable TOD projects is not new news in the community development field. As early as 2000, researchers and advocates identified the need to locate affordable housing and neighborhood services in transit-rich areas.<sup>184</sup> In the years leading up to the creation of the Denver TOD Fund, organizations in a handful of metropolitan areas (e.g., Minneapolis, San Francisco) were researching the gaps in public and private financing available for equitable TOD projects. But until the launch of the Denver TOD Fund in 2009, there had been no successful effort to provide a dedicated source of flexible, patient capital for equitable TOD projects.

Now, just three years later, the Denver and Bay Area TOD Funds have “captured the imagination of other regions.”<sup>185</sup> Funders, lenders, and other key stakeholders involved in creating the funds have spoken about their experiences at several national conferences and are regularly invited to advise other regions on the development of their own TOD funds. After speaking at a TOD Fund-related convening in Boston in March, Brian Prater observed,

This is not the first time I’ve been to another place and people have said, what the heck is this – I didn’t know you could do that... It’s about getting people to think about things in a different way – the [Bay Area] Fund has been helpful there. It’s not just another housing acquisition fund – it’s different... You can do all this great stuff if you’re pointing toward transit, toward TOD.

The creation of the TOD Funds in Denver and San Francisco has opened up a new way of thinking about community development finance and is contributing to the creation of a new area of expertise among community development practitioners around the country.

Nadine Fogarty, a principal at the urban economics consulting firm Strategic Economics, emphasizes that the TOD Funds have also helped improve public understanding of the importance of equitable TOD. “It’s amazing how much press San Francisco has gotten. In terms of impact, [the Fund is] important not just in the projects it’s helping to get going but also in terms of marketing – it’s bringing this issue to people’s consciousness.”<sup>186</sup>

As awareness of equitable TOD issues has grown across the country, it has created an opportunity for more direct work on systemic challenges. Noni Ramos, Chief Lending Officer at Enterprise Community Loan Fund, which is involved in both the Denver and Bay Area funds, says “For

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<sup>184</sup> See, for example, *Moving Beyond Sprawl: The Challenge for Metropolitan Atlanta* (Washington, DC: Brookings Institution, March 2000), <http://www.brookings.edu/research/reports/2000/03/atlanta>.

<sup>185</sup> Prater, interview.

<sup>186</sup> Nadine Fogarty, interview by author, Cambridge, MA, March 20, 2012.

[Enterprise Community Loan Fund] and LIIF, having experience with both of the TOD Funds really sparks a conversation – we’ve subsequently come out with an MOU to work nationally on the issue of equitable TOD.”<sup>187</sup> According to a joint press release from Enterprise and LIIF, the national TOD initiative will support “regional equity collaboratives to encourage discussion and planning among local stakeholders for TOD projects; assess community financing needs and develop appropriate solutions; share knowledge and best practices to benefit the broader community development field; and develop and advocate for public policy that promotes equitable TOD.”<sup>188</sup> In addition, Enterprise and LIIF have received funding from Living Cities to research the gaps in TOD financing in four major metro areas (the San Francisco Bay Area, Denver, the Twin Cities, and Atlanta.)<sup>189</sup>

With increased attention to and understanding of equitable TOD issues comes the political power and technical expertise necessary to scale up investment in equitable TOD at the national level. In this way, the impact of the Denver and Bay Area TOD Funds exists can be seen not only at the local or regional level, but also on the broader community development finance system.

### ***Two: Growing participation in TOD projects by key private and nonprofit financial institutions***

As discussed in Chapter Four, a critical need for most equitable TOD is flexible, patient capital to support acquisition and early-stage development costs. Unfortunately, most public and private sector financial institutions are unable or unwilling to supply this sort of risky, long-term capital. As a result, mission-driven developers have limited access to the capital they need to support equitable TOD projects, and many mainstream financial institutions have very little or no experience with equitable TOD deals.

In structuring the Bay Area TOD Fund, one of LIIF’s key goals was to engage a broad community of lenders, including CRA-focused private banks and mission-driven CDFIs, in financing different types of TOD deals. As Prater explains, “We picked our partners carefully... We wanted to get [new banks] exposed to all the equitable TOD stuff so then we have another lender/investor in the market that is comfortable providing other forms of financing.”<sup>190</sup> The challenge, of course, was to structure the Fund in such a way that it would insulate the banks from some of the risk involved in the TOD deals.

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<sup>187</sup> Ramos, interview.

<sup>188</sup> ‘Enterprise and LIIF Partner to Advance Transit-Oriented Development Nationwide’, *Low Income Investment Fund*, October 17, 2011, <http://www.liifund.org/news/post/enterprise-and-liif-partner-to-advance-transit-oriented-development-nationwide/>.

<sup>189</sup> Hacke, interview.

<sup>190</sup> Prater, interview.

By dedicating public grant funds to the top loss position and putting foundation and CDFI funds at risk before the commercial debt, the Fund was able to mitigate some of the risks that concerned private lenders. As Amy Chung, Senior Investment Officer at Living Cities put it, “There’s not enough grant money to fund everything, but if you put those [grant] dollars at risk before the commercial debt, you can buy down the risk [for the private banks]. That’s the model we decided to use.”<sup>191</sup>

Ultimately, two private banks – Citi and Morgan Stanley – agreed to participate in the Fund, contributing 50% of the total capital. While Citi Community Capital had significant prior experience with TOD, Vice President Betina Dowdell notes that the Fund offered an opportunity for the bank to “step up and be a leader.”<sup>192</sup> Morgan Stanley, on the other hand, was relatively new to TOD. Since agreeing to participate in the Bay Area Fund, the bank’s engagement with equitable TOD issues has expanded. For example, Audrey Choi, Managing Director and Head of Morgan Stanley Global Sustainable Finance, recently spoke at a Federal Reserve Bank-sponsored conference focused on equitable TOD, and the firm agreed in the fall of 2010 to participate in Living Cities’ TOD Working Group.<sup>193</sup>

Securing the participation of two private banks in the TOD Fund was an important accomplishment for LIIF. Also significant was the creation of the six-member CDFI Consortium whose members serve as the Fund’s originating lenders. While each of these CDFIs had deep experience in community lending and a few had participated in structured funds in the past, some observers note that their participation in the TOD Fund has brought about an important shift in their approach to project financing. Namely, these observers believe that participating CDFIs have adopted a more strategic, intentional approach to the geography and spatial distribution of their investments. Heather Hood, a former Program Officer at the San Francisco Foundation who led much of the Great Communities Collaborative work, notes, “In the Bay Area, we have great CDFIs and they do great work, but historically they’ve thought about organizational health, not geography – it’s very rare that they look at their projects on a map. This fund has led them to more of a geographic focus toward transit.”<sup>194</sup> This shift in focus holds the potential to influence not just the dollars expended by the TOD Fund, but also the millions of dollars in CDFIs’ individual lending portfolios.

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<sup>191</sup> Chung, interview.

<sup>192</sup> Dowdell, interview.

<sup>193</sup> ‘Audrey Choi - Capital Solutions for Equitable Transit-Oriented Development’, *Federal Reserve Bank of San Francisco*, May 24, 2011, <http://www.frbsf.org/cdinvestments/conferences/transit-oriented-development/speaker-choi.html>.

<sup>194</sup> Heather Hood, interview by author, New York, NY, March 29, 2012.

Reflecting on CDFIs' historic approach to project financing, Nadine Fogarty points out that most institutions depend on New Market Tax Credit allocations for a significant share of their funding. Because these allocations are tied to projects in low-income tracts, "Historically, most [CDFIs'] work has been focused on these low-income tracts. The TOD Funds provided an interesting vehicle to allow them to get outside of that tax credit exclusive world and think about how not to be stuck in a specific geography."<sup>195</sup> This is particularly important given that the opportunity for equitable TOD to develop affordable housing and other community infrastructure in higher-income, transit-accessible neighborhoods.

By directly expanding the universe of private banks with TOD lending experience and indirectly influencing the geography of CDFIs' lending, the Bay Area TOD Fund has helped grow the share of community development finance dollars that are focused on equitable TOD projects in a variety of different types of neighborhoods. The Fund has also laid the groundwork for increased investment in equitable TOD projects among both private and nonprofit financial institutions.

### ***Three: Leveraging public resources to create innovative new financial products***

The significance of public agencies' roles in facilitating the development of the Denver and Bay Area TOD Funds is difficult to overestimate. The top loss reserves contributed by the City of Denver and the Bay Area MTC were critical to the funds' ability to create new financial products at better terms than anything else available in the market. The long-term, no-interest structure of the top loss reserves, along with the fact that the public agencies were in first position for any losses incurred by the funds, allowed Enterprise in Denver and LIIF in San Francisco to address the unique financing challenges of equitable TOD projects. By blending no-interest public funds with no- and low-interest philanthropic and CDFI funds (and, in San Francisco, commercial debt), the funds were able to offer borrowers longer-term, lower-interest, more flexible financing for a variety of different TOD deals.

While the benefits of such new products to developers are obvious, Noni Ramos points out that they also create a public benefit by taking a relatively small amount of public funds and "using them in a creative way to leverage them up..."<sup>196</sup> In San Francisco, for example, the MTC's \$10M grant is leveraged 4:1 and has allowed LIIF to develop several new financial products to support equitable TOD throughout the region. In Denver, city dollars are leveraged 5:1. As Bustos notes, "That's a

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<sup>195</sup> Fogarty, interview.

<sup>196</sup> Ramos, interview.

huge thing for a municipality to claim when they are they looking for additional federal grants for their areas.”<sup>197</sup>

The TOD Funds’ ability to take public capital, use it to attract additional philanthropic and private investment, and then blend those funds together to create new financial products is a significant achievement. At a time when public funds for community development are scarce, the public-private partnership model proven by the TOD Funds can help open up a new world of possibilities for the future of community development finance.

#### ***Four: Improved alignment of public and private funding sources***

As discussed in Chapter 4, the highly fragmented nature of the community development finance system presents a significant challenge to the development of equitable TOD for two reasons: first, it facilitates the adoption of unique funding priorities by individual funding sources; and, as a result, it inhibits the alignment of multiple funding sources in a single project. Such alignment is often critical for the success of complex, expensive equitable TOD projects. The TOD Funds in Denver and San Francisco have each made important progress in addressing this critical challenge.

In Denver, Melinda Pollack notes that the state’s Housing Finance Agency, which is an investor in the TOD Fund, strengthened its support of TOD projects in its 2012 Qualified Allocation Plan (QAP) for Low Income Housing Tax Credit awards. For example, the QAP identifies projects located in TOD areas as one of seven main priorities and awards additional points to projects located within ¼ mile of transit.<sup>198</sup> The prioritization of TOD sites for LIHTC allocations is an important achievement, given that the LIHTC program is the single largest source of federal funding for affordable housing development and preservation.

At the city level, Debra Bustos notes that the Urban Land Conservancy “tries to work with the city and local Business Improvement Districts (BIDs) where capital improvements are occurring.”<sup>199</sup> This allows ULC to leverage public investments in local infrastructure (e.g., bike paths, street lighting) while enabling the city to focus its investments in areas that have great potential for growth. For example, Mile High Vista, a TOD Fund-financed development which is sited in a BID,

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<sup>197</sup> Bustos, interview.

<sup>198</sup> ‘Low Income Housing Tax Credit Allocation Plan 2012’ (Colorado Housing and Finance Authority, December 30, 2011), [http://www.chfainfo.com/documents/CHFA\\_LIHTC\\_Allocation\\_2012.pdf](http://www.chfainfo.com/documents/CHFA_LIHTC_Allocation_2012.pdf).

<sup>199</sup> Bustos, interview.

will ultimately feature 80 units of affordable housing on the same site as a new public library. A nearby bike path financed through the BID will help connect residents to the downtown area.

In the Bay Area, where the state's QAP has prioritized TOD for several years, the Fund was designed to attract tax credit equity in other ways. First, each Fund-financed project must secure a letter of support from a public agency stating that agency's commitment to the project. In addition, project sponsors must commit 10% of the project's equity up front. According to Prater, the letter of support and up-front equity help "influence the allocation of public funds, because [our projects] have soft money in them and that helps them score better on, for example, the tax credits. That's the gold."<sup>200</sup>

Toby Lieberman, Affordable Housing Loan Program Director at the Opportunity Fund, a participating lender in the Bay Area TOD Fund, notes that her efforts to align funding priorities have focused on city agencies, which typically provide the gap financing necessary to move projects to construction. "What was really exciting about [Leigh Avenue Senior Apartments] was that I was able to access the people at the city, before I talked to the project developer, to say, 'What does your pipeline look like and what can you do without Redevelopment funds in the next 7 years?' The city was incredibly cooperative."<sup>201</sup> By aligning the deployment of TOD Fund financing with city priorities, Lieberman was able not just to ensure her own organization's ability to finance the Leigh Avenue deal but also to lock in future city funding for equitable TOD.

### ***Conclusion***

Through increasing awareness of the importance of equitable TOD, expanding the share of public and private community development funds dedicated to TOD, leveraging public resources to create innovative new financial products, and improving the strategic alignment of public and private sector funds, the TOD Funds have sparked significant shifts in the structure and funding priorities of their local community development finance systems. These local-level shifts suggest that a strategic opportunity exists to leverage the lessons learned by the TOD Funds to catalyze large-scale change in the national community development finance system.

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<sup>200</sup> Prater, interview.

<sup>201</sup> Lieberman, interview.

## ***II. Implications for the Community Development Finance System***

Despite the many positive effects of the Denver and Bay Area TOD Funds in their respective geographies as well as on their local community development finance systems, they are too small and too isolated to single-handedly address the need for equitable TOD. As Melinda Pollack put it, “The Funds by themselves are a small part of addressing the challenge – it’s like putting your finger in the dike. What you really need is policy change.” Robin Hacke at Living Cities, agrees, explaining, “Whenever you see a special purpose entity [like the TOD Funds], you have to ask, what’s broken in the system that you can’t fix? [The Funds] are workarounds, in that they allow you to address problems without the direct work [on the community development finance system].”

This final section of the thesis considers the question of what improvements are necessary to the existing national community development finance system in order to facilitate the development of equitable TOD at scale.<sup>202</sup> The changes recommended in this section assume that the general structure and core elements of today’s community development finance system will remain in place (e.g., the federal government will continue to provide block grants to states and municipalities, the LIHTC will remain the largest source of affordable housing finance, etc.). The recommendations focus on federal policy in order to affect the structure and priorities of the national community development finance system. Given these assumptions, three major changes are recommended to overcome the barriers to equitable TOD identified earlier in this paper: first, the creation of a federal policy environment that facilitates investment in equitable TOD through coordinated planning and targeted financial incentives; second, the devotion of significantly greater public resources for equitable TOD; and third, the enhancement of the capacity of CDFIs and other organizations to take advantage of new opportunities for equitable TOD. Together, these recommendations address the multiple challenges to equitable TOD identified in Chapter Four.

### ***One: Create a policy environment that facilitates investment in equitable TOD***

Chapter Two of this thesis outlined the profound and lasting effects of Post-War housing and economic policies on the spatial organization of housing, employment, retail, and other critical community infrastructure in the U.S. As explained in Chapter Two, the sprawling development

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<sup>202</sup> For purposes of this discussion, “scale” is defined as the ability to meet projected demand for equitable TOD in 2030. According to estimates from CTOD, by this time, about 15 million households – including 5 million low-income households – will want to live in a TOD neighborhood.

patterns that emerged during this time are both environmentally unsustainable and economically inefficient, with strong potential to generate adverse social impacts.

Transit-oriented development, on the other hand, can generate large-scale benefits for residents, local economies, and the environment. Unfortunately, as described in Chapter Four, TOD is very expensive to build and, for the most part, current public policies and financial incentives are not designed to encourage its development. Reflecting on this, Nadine Fogarty notes,

“We subsidized suburban sprawl for decades and all of our finance tools were designed for greenfields, so in order to, in any really major way, refocus growth back into cities and to transit-oriented locations in the suburbs, given all of the costs and challenges and barriers to infill development – it would take much more reallocation of funding, more aggressive policies, some real thinking about curtailing highway and road development... We need more systematic thinking about how we use our public investments.”

Such a systemic approach requires addressing the misalignment of public policies regarding housing, transportation, economic development, and land use that took place with the rise of the automobile in the mid-20<sup>th</sup> century. Improving the horizontal and vertical alignment of development priorities will require significant changes to planning, zoning, and land-use processes at the local level and to tax policies and funding allocation processes at the federal level.

An excellent opportunity to improve the alignment of local planning processes is to address the fact that federally mandated planning requirements for transportation, housing, and economic development all take place at different geographic scales and on different timelines.<sup>203</sup> This creates enormous challenges to the development of equitable TOD, even in areas where support for such development is strong. At the same time, federal funding processes for new transit projects do not require communities to maximize station area development potential, which often results in sub-optimal station siting that inhibits the development of equitable TOD.

The good news is that demand for more integrated approaches to housing, transportation, and land use planning is growing, as evidenced by the overwhelming response to the Office of Sustainable Communities’ first RFP for regional planning grants. (More than two thirds of all metropolitan areas

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<sup>203</sup> Federal transportation policy alone requires five different plans: a plan for planning activities, short-range (4 year) plans at the state and metropolitan area levels, and long-range (20 year) plans at the state and regional levels. Only the long-range plans require integration of housing and land use issues. Federal housing policy, on the other hand, requires states and some local governments to prepare reports every five years on local housing issues, but these plans are not required to take into account regional transportation planning issues. Economic development planning efforts, which can and do occur at the local, state, and regional scales, are typically isolated from both housing and transportation planning processes.

in the country applied for grants.) Unfortunately, federal support for these approaches is tenuous: funding for the Office of Sustainable Communities' discretionary grant programs was eliminated in the FY2011 federal budget, though it may be reinstated in the upcoming budget.

At the state level, California's Sustainable Communities and Climate Protection Act, better known as SB375, offers an excellent example of how public policy can help integrate land use and transportation planning. Passed in 2008, the purpose of the legislation was to reduce statewide greenhouse gas emissions by reducing VMT. To accomplish this, SB 375 introduced four key changes to existing planning and transportation law:<sup>204</sup>

- (1) Creates a comprehensive "sustainable communities strategy" that links climate policy with transportation and land use planning through the Regional Transportation Plan;
- (2) Aligns local housing and development plans to the regional sustainable community development strategy;
- (3) Streamlines environmental regulations and creates incentives to encourage land use decisions that support the sustainable community development strategy;
- (4) Adds new provisions that promote accurate estimates of the transportation impacts of different land use decisions.

These changes are designed to make California a model for reducing global warming pollution. The effectiveness of SB 375 in expanding access to equitable TOD and reducing statewide emissions should be closely monitored in the coming years to determine the extent to which the legislation is a successful model that should be introduced in other areas of the country.

The policy changes outlined above are critical to the goal of substantially increasing investment in equitable TOD; however, on their own, they are insufficient. Noting that zoning and land use policies are "passive mechanisms," Nadine Fogarty warns,

Where people have tried to promote TOD and only use policy solutions, unless they're in a really hot market, it can't get them there. Especially given that we're talking about places that have really huge investment needs – infrastructure improvements, environmental remediation, placemaking, pedestrian and other connectivity, etc – all of those hinder the ability to deliver even market rate development.

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<sup>204</sup> Tom Adams, Amanda Eaken, and Ann Notthoff, *Communities Tackle Global Warming: A Guide to California's SB 375* (Sacramento, CA: California League of Conservation Voters, June 2009), <http://www.nrdc.org/globalwarming/sb375/files/sb375.pdf>.

In other words, as a report from Living Cities put it, “without market momentum, planning tools are like sails with no wind”.<sup>205</sup> Therefore, the availability of public subsidies, low- or no-cost loans, and other financial incentives and mechanisms is as important to the development of equitable TOD as supportive public policies.

***Two: Make available significantly greater financial resources to support equitable TOD***

An obvious but extremely important challenge to increased development of equitable TOD is the availability of financial resources to support these projects. As described in the opening pages of this thesis, federal funding for all sorts of community development programs is dwindling at the same time that the credit crisis has made private financing more difficult to obtain. While it is difficult, given the current economic climate, to argue for increased public investments in equitable TOD, it is prudent to consider the ways in which current programs could better support and incentivize different types of development.

One way in which existing federal funding programs could support increased investment in equitable TOD is by linking eligibility for competitive grant programs to evidence of local commitment to sustainable development. For example, as discussed in Chapter Four, the application process for federal New Starts transit awards could require that station siting takes into account the development potential of nearby land parcels.

Another potential strategy is to redirect existing federal funds to support equitable TOD, among other strategic investments. The mortgage interest tax deduction (MID), for example, cost the federal government more than \$108 billion in 2010, an amount that is nearly two and a half times the size of HUD’s budget that year.<sup>206</sup> But as a policy designed to promote homeownership, the MID is flawed in two important ways. First, its benefits are “not conferred equally... most of this subsidy accrues to upper and middle-income homeowners, and many lower-income households receive no benefit from the mortgage interest deduction, since the standard income tax deductions outweigh what they would receive through itemized deductions.”<sup>207</sup> The regressive nature of the mortgage interest tax deduction is illustrated in Figure 14 on the following page.

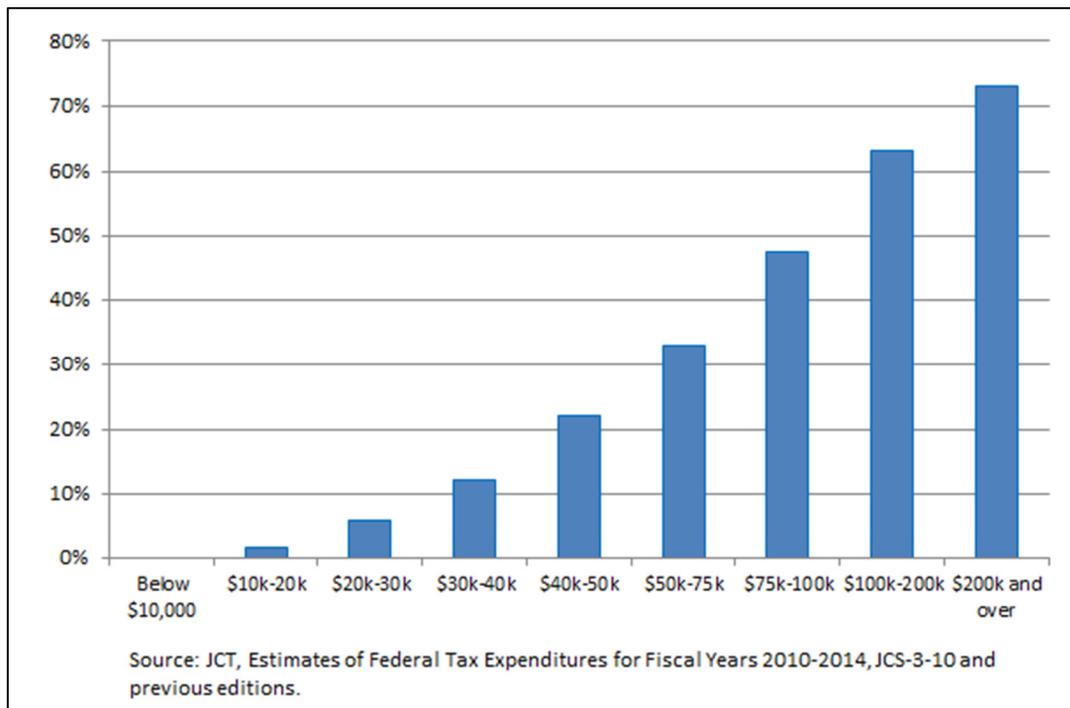
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<sup>205</sup> *Fostering Equitable and Sustainable Transit-Oriented Development: Briefing Papers for a Convening on Transit-Oriented Development*, 9.

<sup>206</sup> Brian P. (Brian Philip) Valle, ‘Here comes the SUN : a case study of the Stabilizing Urban Neighborhoods Initiative in Boston, Massachusetts’ (Thesis, Massachusetts Institute of Technology, 2011), 14, <http://dspace.mit.edu/handle/1721.1/67245>.

<sup>207</sup> Ibid.

**Figure 14. Percentage of Households Claiming MID,  
by Income Level, 2008<sup>208</sup>**



The second problem with the MID is that it has not actually been proven to increase the rate of homeownership. As described in a 2011 report from the libertarian think tank, Reason Foundation, “Rather than increasing the homeownership rate, the primary impact of the MID is to increase the amount spent on housing by consumers who would choose to own anyway, subsidizing spending on housing rather than homeownership.”<sup>209</sup>

By shrinking or eliminating outright the mortgage interest tax deduction, federal policy could free up significantly greater resources for the construction of equitable TOD neighborhoods across the country. This use of funds would not only generate significantly greater environmental and social impact than the existing MID, but would also help stimulate economic development in inner cities and close-in suburbs throughout the country.

<sup>208</sup> Stansel and Randazzo, ‘Unmasking the Mortgage Interest Deduction’, 6.

<sup>209</sup> Ibid., 2.

***Three: Augment the capacity of CDFIs and other community development organizations to take advantage of new opportunities for equitable TOD***

The institution of TOD-supportive public policies and the availability of additional financial resources to support equitable TOD are necessary conditions for expanded production of equitable TOD. They are, in a way, the necessary inputs to the community development finance system. The question is, what is the process by which key institutions within the system can access these inputs and convert them to their desired output (equitable TOD)?

Robin Hacke suggests that one way to think about this question is to consider how the private market functions. When presented with a strategic opportunity for land acquisition, for example, private developers can act quickly because they have access to their own equity and other forms of patient, flexible capital. The community development finance system needs a similar institutional structure to connect newly available financial resources to development expertise.

The key elements of such a structure would likely include scale (organizational and financial), access to capital, technical expertise, knowledge of local markets, and strong, trusted local development partners. This structure would serve as a conduit to direct public and private financing to high-performing, mission-driven developers who could then pursue high-potential TOD deals.

Community development financial institutions (CDFIs)<sup>210</sup> are a logical choice for a pre-existing network of institutions that is well-positioned to deliver these structural elements. CDFIs share a primary mission of promoting community development; most are already active in a wide range of community development finance activities, including financing affordable housing, economic development, education infrastructure, and healthcare centers. According to the federal CDFI Fund, in 2007 alone, CDFIs across the country “financed the construction or rehabilitation of more than 4,000 affordable housing units and financed commercial real estate developments that are

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<sup>210</sup> CDFIs are private sector financial intermediaries that share a primary mission of promoting community development. There are more than 800 certified CDFIs in the U.S., including a range of entrepreneurial nonprofit, for-profit, regulated, and unregulated institutions (including community development loan funds, community development banks, community development credit unions, microenterprise funds, community development corporation-based lenders and investors, and community development venture funds). CDFIs are “leading the financial services industry in developing innovative and socially responsible strategies to deliver credit to working poor and low-income families and communities.” (Opportunity Finance Network)

projected to develop or rehabilitate 15 million square feet of commercial real estate and generate 38,000 construction jobs.”<sup>211</sup>

The Bay Area TOD Fund’s experience has demonstrated that well-managed CDFIs have the technical expertise, local knowledge, and developer relationships necessary to make multiple successful TOD deals. In fact, CDFIs are ideally positioned to cultivate a strong development pipeline. As Brian Prater at LIIF put it, “CDFIs are often the first to recognize new trends in the market because we’re so close to the ground and we do the kind of early stage funding that others don’t do. We’re in a good position to see where the market winds are blowing.” What CDFIs were lacking prior to the creation of the TOD Fund – and what CDFIs around the country still struggle to secure – is scale and access to capital.

The CDFI Bond Program, established as part of the Small Business Jobs Act of 2010, may offer a way to address this challenge. The program provides a new source of long-term (up to 30 years), low cost capital designed to enable CDFIs to scale up their investments in eligible community and economic development activities (e.g., affordable housing, small business lending, supporting construction of community-oriented commercial facilities, etc.). The law authorizes the Treasury Department to guarantee up to 10 bonds per year, at a minimum of \$100 million per bond, up to a total of \$1 billion per year through FY 2014. This program would offer a transformational opportunity to build the capacity of the CDFI network and expand its ability to serve low-income communities throughout the country.

The CDFI Bond program is particularly exciting as a potential source of equitable TOD financing for two reasons. First, the size of the bonds (minimum issuance of \$100M per bond) creates an incentive for investment in large-scale projects, such as real estate development, rather than other types of CDFI activities (e.g., small business lending). Second, the bonds are designed to back long-term, very low-interest loans – exactly the sort of financing that is required for early stage equitable TOD activities such as predevelopment and acquisition.

Unfortunately, there are two important challenges that must be overcome before the community development field is able to take advantage of the unprecedented opportunity presented by the CDFI Bond program. First, the Treasury Department must issue the regulations that govern the program’s operations. (The program was established in 2010, but because the regulations have not

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<sup>211</sup> ‘The Difference the CDFI Fund Makes’, *U.S. Treasury - CDFI Fund*, n.d., [http://www.cdfifund.gov/impact\\_we\\_make/overview.asp](http://www.cdfifund.gov/impact_we_make/overview.asp).

yet been finalized, the bonds cannot be issued. Already, the \$1 billion in financing that was authorized for FY11 has been forfeited; now, financing for FY12-14 is at risk.) Second, assuming the regulations are released, the CDFI field as a whole may lack the organizational capacity necessary to make the greatest use of the available financing. A 2012 report from Living Cities entitled *The Capital Absorption Capacity of Places* reflects on the organization's experience attempting to place large amounts of grant and low-interest debt capital in economically challenged cities across the country. The organization had assumed that these cities would have local CDFIs with the capacity to absorb and make use of this capital. Unfortunately, it learned that "In practice, many communities did not have intermediaries with lending experience in the areas that philanthropic partners wanted to concentrate on, nor were there always lenders of sufficient scale to work with the capital that Living Cities wanted to invest."<sup>212</sup>

Living Cities' experience is a cautionary tale for the field of community development finance, particularly as it looks ahead to a potential infusion of significant federal financing through the CDFI Bond program. While CDFIs are well-positioned to play the critical intermediary role that connects public and private capital to development expertise, they are not the only institutions that can serve this function. The important task is not simply to find and bring to scale a single intermediary organization or network of organizations, but rather to ensure the long-term capacity for well-coordinated fundraising, deal-making, and equitable TOD development at the level of the national community development finance system.

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<sup>212</sup>David Wood et al., *The Capital Absorption Capacity of Places A Research Agenda and Framework*, Working Paper (Washington, DC: Living Cities, March 2012), 2, <http://www.livingcities.org/knowledge/media/?action=view&id=74>.

## 7. CONCLUSION

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The success of the Denver and San Francisco Bay Area TOD Funds in catalyzing the development of equitable TOD is an important step forward for the field of community development finance. Looking to the future, this field has a tremendous opportunity to influence the adoption of more sustainable, equitable development patterns in neighborhoods across the country. Of course, the field also faces significant challenges: federal housing and economic policies do not prioritize the goals of equitable, sustainable development; the field lacks sufficient financial resources to pursue these goals at scale; and, as a result, the field's capacity to undertake large-scale development of equitable TOD is limited.

These challenges are not insurmountable. Thanks to the work of innovative community developer practitioners like those in Denver and San Francisco, support for more sustainable, equitable patterns of development is growing, alongside expertise on how to finance and construct equitable TOD. To bolster the case for increased public investment in equitable TOD, more research is needed to quantify the long-term economic, environmental, and public health benefits of denser, transit-accessible development.

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