Incentives to Encourage Equitable Development in Los Angeles County Transit Oriented Districts

July 2013

Submitted to:

The California Community Foundation
The California Endowment
Los Angeles County Metropolitan Transportation Authority

Submitted in Partnership by:

Low Income Investment Fund
Center for Transit Oriented Development
Enterprise Community Partners

Contents

Local Environment and Study Summary

Los Angeles County is facing a changing landscape and a unique opportunity to reshape how its residents work, live, and commute. The role of rapid transit in Los Angeles County is ever-expanding, and Metro is spearheading a regional effort to plan, design, improve and maintain the rapid transit system. This effort and the 2008 passage of Measure R, a half-cent sales tax for transportation, by a two-thirds vote of Los Angeles County residents catapulted the Los Angeles region towards a different future: a future less defined by the automobile and more defined by an array of mobility choices for all Los Angeles County residents. This profound investment will shape the form and function of the region, and has the potential to positively impact the quality of life of the people who live and work in Los Angeles County, particularly low and moderate income people who in some cases spend nearly 60% of their incomes on housing and transportation combined. Los Angeles County's expanded transit system will in turn increase access to the regional economy – not only for low and moderate income people, but for all Los Angeles County residents – via less polluting and often more affordable transportation choices. Improved transit access will bring parts of Los Angeles County closer together; communities that were once isolated will become more interconnected and potentially more desirable as more people seek shorter and easier commutes as well as housing in urban neighborhoods that have a mix of services and amenities within a short walk, bike ride, bus, or train trip from their front door.

Simultaneously, Los Angeles County is facing unprecedented challenges to providing affordable housing to those households that utilize transit the most. Los Angeles County is predominantly home to renters: approximately 54% of housing units in the County are renter-occupied, and the City of Los Angeles is even higher at 62%[1]. High land and development costs coupled with low vacancy rates place upward pressure on housing costs, leaving a large share of residents overburdened by rent and living in overcrowded conditions. There is an urgent need to build more affordable housing and to preserve the existing inventory of affordable housing, especially housing near current or future transit stations, to both encourage transit ridership and provide low-income people more affordable mobility options.

The landscape of financial resources for affordable housing development has changed significantly over the past few years. The funding programs from local governments, the State of California, and the federal government that support the production and preservation of affordable housing have seen drastic cuts or have simply been depleted. Exacerbating the situation, Redevelopment Agencies (RDAs), key partners in advancing affordable housing, community development and economic development, were dismantled in 2011, impacting the City of Los Angeles CRA, the Los Angeles County Community Development Department, which relied partly on redevelopment funds from the City of Industry, and other municipalities throughout the County. As a result, community development has entered a new era, where deep public subsidies for affordable housing no longer exist or are extremely limited. The current financing environment likely will have an enduring negative impact on the production of new affordable housing, as few projects can proceed without public subsidies. Additionally, so-called "legacy deals" (i.e., deals that use the balance of public subsidies still available) are becoming more rare. Industry advocates are working to identify and secure replacement sources of funds to fill the gap at the state and local level. Advocates are also working on preserving and expanding federal resources. Considering the political environment, it is difficult to predict how

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[1] American Community Survey, 2011.

successful they will be, though the unexpected progress in 2012 pushing for a permanent funding source at the state level gives grounds for cautious optimism around this year's renewed effort to pass the California Homes and Jobs Act[2].

Equitable development in Transit Oriented Districts (TOD) is one strategy that can dually help Los Angeles County achieve its goals of increased transit ridership and reduced congestion, while reducing transportation costs for residents and ensuring lasting affordability of homes near transit. Equitable development in TOD prioritizes investments in the production and preservation of homes for households at all income levels (e.g., market and affordable housing), protects the social fabric of neighborhoods, and allows residents to walk, bike, and take transit to education opportunities, jobs, shops, and services. Equitable development in TOD can also improve the health of Los Angeles residents through improved air quality, increased physical activity associated with active transportation, and healthier homes.

To achieve equitable TOD, new funding partnerships and strategies are needed to provide affordable housing units for renters who cannot afford market-rate housing in Los Angeles County. This study specifically focuses on understanding what interventions would encourage affordable, mixed-income housing and mixed-use development in neighborhoods of varying economic strength while yielding greater ridership to the Los Angeles County Metropolitan Transportation Authority (LACMTA) and positive health impacts, reduced congestion, and environmental benefits to the region. Of particular interest is whether there are approaches which, when combined with resources currently available in this environment, would result in more equitable TOD at a pace that increases the potential for success of the expanded transit system for residents, LACMTA, and Los Angeles County communities.

To conduct this analysis, we have considered the overall need for a new set of tools and policies based on interviews with developers and capital providers, an evaluation of the feasibility of various development types near transit, as well as the ability of current policies, tools and funding strategies at the state, regional and county scales to fill these needs. We have further evaluated national case study tools of other regional agencies in supporting equitable TOD, and compared these case studies to the tools and policies provided by LACMTA and Southern California Association of Governments (SCAG).

In the concluding section of this study, we present LACMTA, SCAG and other partners the most promising opportunities for follow-up activities. These options include: incentivizing local governments to pursue supportive activities through the strategic allocation of planning and infrastructure funds; utilizing LACMTA land in a more targeted manner; encouraging other public entities to follow LACMTA's lead in land lease and sale; complementing existing early phase loan resources with needed pre-development funding; and, on occasion, supporting long term financing to preserve existing properties or catalyze site development. Summary options focus not only on real estate and financial tools, but also on policies and practices, including potential adaptations to LACMTA's TOD planning and infrastructure grant programs to more closely align with equitable TOD goals.

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[2] The California Homes and Jobs Act of 2013 (SB 391) is a bill that will address the need for a new source of funding to support affordable housing in California by generating an estimated $500 million in state investment and leveraging an additional $2,78 billion in federal, local, and private investment. Supporters include state and regional business associations, labor, statewide and community groups, veterans, seniors, and others. The bill is co-sponsored by Housing California and California Housing Consortium, two affordable housing advocacy organizations. It is going through the legislative process in the spring of 2013.

Key Definitions

The following definitions provide context for terminology used throughout the study.

Transit Oriented District (TOD) – an area within walking distance of transit (defined as ½-mile radius of a transit station or a ¼-mile of frequent bus line) that offers a mix of housing, services, and community amenities accessible to transit riders and community members. Examples include housing, parks, daycare services, hospitals, retail, and restaurants. TODs are bikeable and walkable communities that allow for easy access and integration with the transit system. TODs can also include solely job-creating commercial districts, such as the proposed TOD adjacent the City of Hope. This study does not consider purely commercial TODs.

Equitable Development in Transit Oriented District (or Equitable TOD) – prioritizes investments in the production and preservation of homes for households at all income levels, protects the social fabric of neighborhoods, and allows residents to safely walk, bike, and take transit to education opportunities, jobs, shops, and services.

Affordable Housing – housing that costs no more than 30% of a household's income. In addition, the following income levels are defined by the U.S. Department of Housing and Urban Development (HUD) [3]:

- **Moderate Income**-– up to *$54K* for one person or $78K for four (between 80% and 120% of Area Median Income, "AMI"[4]);
- **Low-income** – up to $47K for one person or $67K for four (between 50% and 80% of AMI);
- **Very low-income** – up to $29K for one or $42K for four (between 30% and 50% of AMI);
- **Extremely low-income** – up to $17K for one or $25K for four (at or below 30% of AMI);
  (The study refers to "Affordable Housing" as affordable to households at all incomes mentioned above, unless it specifically states otherwise.)

Workforce Housing – housing that is affordable to the average household participating in the workforce, including teachers, nurses, firefighters, but also employees in retail sales, food services, and many other critical workers. Typically, workforce housing is defined as housing affordable to households earning 50% to 80% of AMI ($50,000 to $84,000 per year for a family of 4). In this report, workforce housing in the Los Angeles context is synonymous with the HUD-established definition for moderate income housing. In examples of other regions throughout this report, workforce housing may or may not be income restricted, and may or may not be eligible for HUD funding.

Mixed-Income Housing – offers housing for a population at different income levels. These projects fall within two main categories:

- Projects with 20% or more of the units affordable to households at or below 60% AMI. These projects are eligible for public subsidies such as Low-Income Housing Tax Credits (LIHTC), tax exempt bond financing, and loans from the community development divisions of banks as they qualify for Community Reinvestment

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[3] Based upon state income limits for 2012 in Los Angeles County, *http://www.hcd.ca.gov/hpd/hrc/rep/state/inc2k12.pdf*

[4] Area Median Income is defined by the U.S. Census Bureau as the amount which divides the income distribution into two equal groups: half with income above that amount; half with income below that amount. The Department of Housing and Urban Development (HUD) defines limits per AMI for housing public subsidies.

Act (CRA) credits[5]. The most common scenarios that qualify for tax exempt bond financing are 80-20 transactions (20% of the units are at or below 50% AMI) and 60-40 transactions (40% at 60% AMI).

- Market-rate projects that set aside 5% to 15% of the units for affordable housing, per inclusionary requirements or benefits agreement.

Mixed-Use Development – blends a combination of residential, commercial, cultural, etc. uses, where functions are physically and functionally integrated.

H+T (Housing +Transportation) – the combined costs of housing and transportation. Transportation is the second largest expense after housing for the average American household. Even though housing located far from major urban centers might be more affordable at first glance (the "drive till you qualify" concept), it may be less affordable than housing offering transportation choices, once the cost of commuting is factored in.

Market Types:

- **Warm Market** – market with premium real estate values and high market rents.
- **Emerging Market** – market where proximity to a transit site has not yet influenced land values and market rents, but increases are expected. In most cases, real estate values are already increasing.
- **Cool Market** – market characterized by low real estate values and market rents, coupled with a general lack of community amenities or economic development.

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[5] The Community Reinvestment Act of 1977 (CRA) affirmed the obligation of federally insured depository institutions to help meet the credit needs of communities in which they are chartered, mostly through lending or investing, in particular via community development loans. The results of the CRA examination are considered when a financial institution applies to open a branch, merge with another institution, or become a Financial Holding Company.

The Value of Equitable TOD

The term transit-oriented district (TOD) is a planning concept that is focused on facilitating a better coordination between land use and public transit, including walking, biking, and last mile connections. There is no "one-size-fits-all" approach to TOD; successful transit-oriented districts can include a range of development types, a varying mix of uses, and may include a significant increment of either new development or enhancement of existing uses with investments in public infrastructure and community amenities. However, fundamentally, higher density development near transit will support outcomes like reduced vehicle miles traveled, reduced car ownership, and increased transit use.

The term *Equitable* TOD is used to distinguish between TOD that is market driven versus TOD that is attuned to ensuring that low- and moderate-income residents, who use public transit the most, often retain the ability to live near and have good access to the improved and expanded transit system and, thereby, the larger regional economy. Because housing development in TOD locations, and in most infill locations when compared to development at the urban edge, is often riskier and more costly for a host of complex reasons[6], it can be exceptionally difficult for developers to provide housing that reaches price points suitable for low- and moderate-income households. This reality requires a thoughtful, upfront consideration of ways in which public and private investments will facilitate a diverse housing mix in TODs to accommodate low- and moderate-income households, as well as households at the higher end of the income spectrum.

Facilitating equitable TOD calls for a unique set of interventions. First, it is often necessary to conduct an analysis of existing conditions of the area around a transit stop as well as its place in the region and transit network so that stakeholders can arrive at the appropriate strategies to realize equitable outcomes in the TOD over time. Such an analysis can divulge whether or not low- and/or moderate-income residents living in existing or future TODs are vulnerable to displacement due to an upsurge in property values catalyzed in part by the transit investment.[7] This section provides further empirical data supporting the premise that low-income riders living near transit use transit the most, and outlines the range of benefits that equitable TOD can generate for local residents and workers, businesses, transit providers, and Los Angeles County as a whole.

Equitable TOD Supports the Transit System

Nationally, people with household incomes at $50,000 or below use the transit system the most[8]. Further, low-income people who live near transit are more likely than people of higher incomes to use transit to get to work and school. Therefore, successful implementation of equitable TODs is likely to produce a range of positively reinforcing local and regional outcomes that support the transit system overall.

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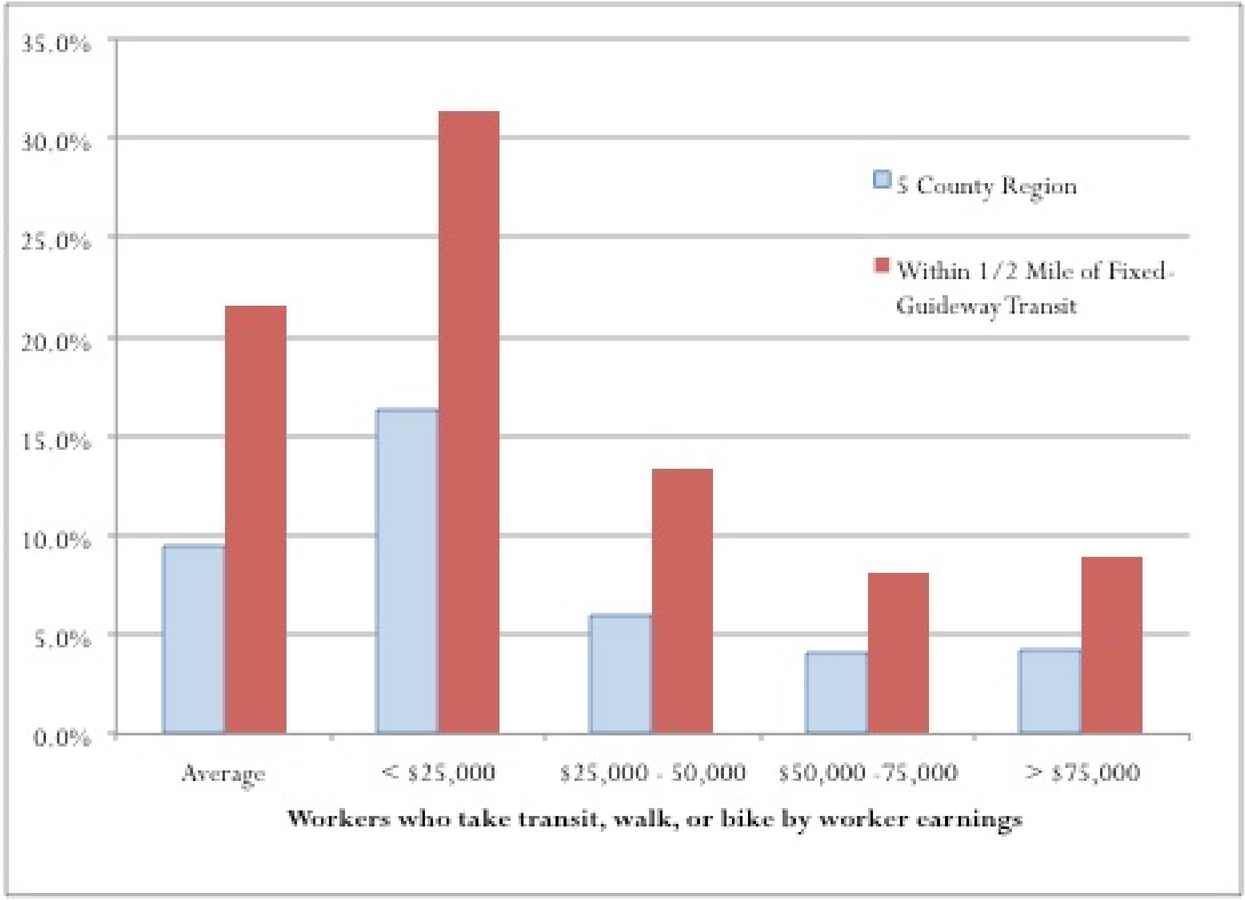
[6] Landis, John and Hood, Heather, The Future of Infill Housing in California: Opportunities, Potential, Feasibility and Demand, Institute of Urban and Regional Development, University of California, Berkeley, on behalf of the California Business, Transportation and Housing Agency, September 2005.

[7] Such an analysis was not completed for this study.

[8] American Public Transportation Association (APTA), A Profile of Public Transportation Passenger Demographics and Travel Characteristics Reported in On-Board Surveys, May 2007. http://www.apta.com/resources/statistics/Documents/transit_passenger_characteristics_text_5_29_2007.pdf

Figure 1 shows the frequency with which workers living in the Five-County Los Angeles Region take transit (e.g., bus and/or fixed-guide way) or walk to work. Workers who live near transit stations (within half a mile) are more than twice as likely to take transit or walk as workers in the region as a whole.[9] This chart also shows that lower income workers who live near transit far more likely to take transit than workers of higher incomes. Compare workers who earn less than $25,000 a year to those making more than $75,000: while higher income workers who live near transit are more likely to take transit than higher income workers who live far from transit, lower income workers are more than three times as likely to take transit when they live in close proximity to transit than those higher income workers.

Figure 1: Percent of workers who commute on transit or by walking, 2005-2009



Source: TOD Database, 2005-2009 American Community Survey

These trends of increased transit use by low-income residents are even truer for Los Angeles than elsewhere in the state or country. The pie charts in **Figure 2** compare transit ridership to work by income in Los Angeles County versus overall ridership in California and in the United States. While people with incomes under $50,000 annually

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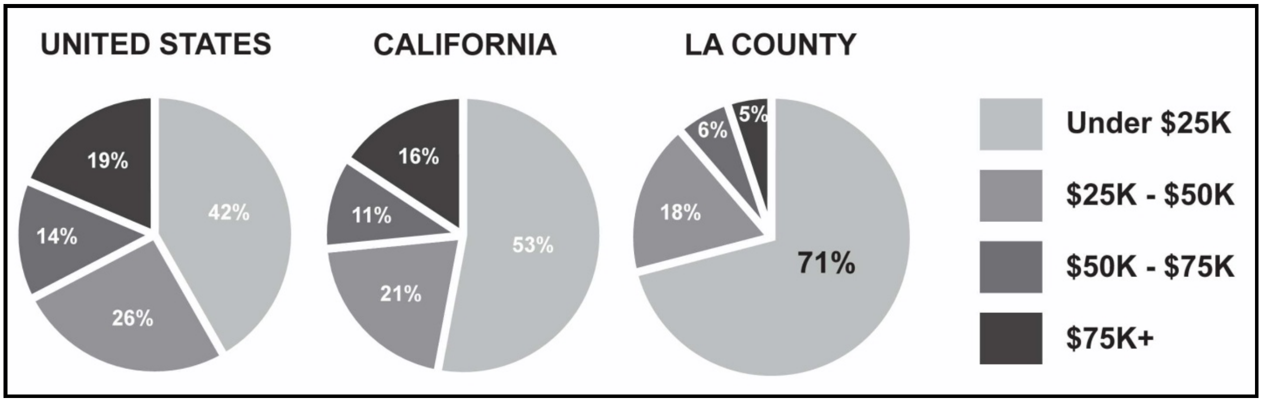
[9] The region, in this instance, is defined as the five-county consolidated metropolitan area including Los Angeles, Orange, Ventura, San Bernardino and Riverside Counties.

are a high share of commuter-based transit ridership across California and the United States (roughly 70% and 75%, respectively), in Los Angeles County low-income transit riders with incomes of $50,000 or less make up 89% of the total annual commute trips to work taking place on transit.

Figure 2: Los Angeles Transit Ridership Compared to California and United States Levels, 2006- 2011



Source: U.S. Census, American Community Survey 2006-2011, Reconnecting America

Given the overwhelming percentage of low-income earners who use public transit in Los Angeles County , the nexus between where people live and their propensity to use transit, and the even greater likelihood of low-income people who live near transit to take it, there is a clear incentive for transit providers and other countywide stakeholders to both stabilize and grow opportunities for low- and moderate-income people to live near transit. People who can walk or bike to transit stations are also the least costly riders for transit: because they can walk or bike to transit stations, they do not require the additional and considerable costs of providing parking near stations. The cost to build a new structured parking space in Los Angeles County can run in excess of $30,000 per parking space.[10]

The high propensity of low and moderate income workers to use transit in Los Angeles County may suggest to some the need to increase transit ridership among workers in higher income categories. Los Angeles Metro maintains the highest transit ridership west of the Mississippi River, and increasing housing near transit for higher income households could have the unintended consequence of decreasing overall transit ridership if core low-income transit riders are no longer able to access the system. **Figure 1** reinforces this point: today, workers earning less than $25,000 who live within a half-mile of station areas are twice as likely to take transit or walk to work, compared with workers of the same income who live away from station areas. Even for households living conveniently near transit, use declines among $25,000 to $50,000 earners. National research evaluating the relationship between trends in incomes and travel behavior has shown that when incomes near transit increase, car ownership rates and driving commute shares tend to increase as well.[11] In areas where demand for housing near transit increases, housing prices

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[10] Shoup, Donald. *The High Cost of Free Parking*. APA Planners Press, April 1, 2011

[11] Pollack, Stephanie, "Maintaining Diversity in America's Transit-Rich Neighborhoods: Tools for Equitable Neighborhood Change," Dukakis Center for Urban and Regional Policy, October 2010. While this research was not completed specifically for Los Angeles County tracts, it suggests Los Angeles station areas could be at similar risk without further study and intervention.

will also increase, potentially pricing lower income, transit-dependent people out of the market for rental or ownership housing in a TOD.

In addition, through fostering greater transit use, walking and biking, successful equitable TOD can deliver a range of co-benefits for local residents, workers, businesses, transit agencies, and other stakeholders, as described below.

Equitable TOD Makes Affordable Housing More Affordable

Despite lower housing prices in the years since 2008, housing costs in Los Angeles County are some of the highest in the country. The median price of a single family home in Los Angeles County was $335,000 in July 2012, and the average monthly rent on a two-bedroom home was $1,797—one third more than the typical low-income family can afford.[12] More than half of all renters (57%) in Los Angeles County are over extended with their housing budget for housing (defined by HUD as spending more than 30% of household income).[13]

Considering housing and transportation costs together can give a more complete picture of housing affordability. Nationally, transportation is the second largest household expenditure after housing. Fluctuations in transportation costs tend to hit lower-income households the hardest (e.g., sudden increases in gas prices). Given the inverse correlation between these two expenses, factoring housing and transportation costs together can provide a more accurate picture of a household budget. **Figure 3** below illustrates that both housing and transportation costs near transit stations in Los Angeles County are currently more affordable than the average across Los Angeles County.

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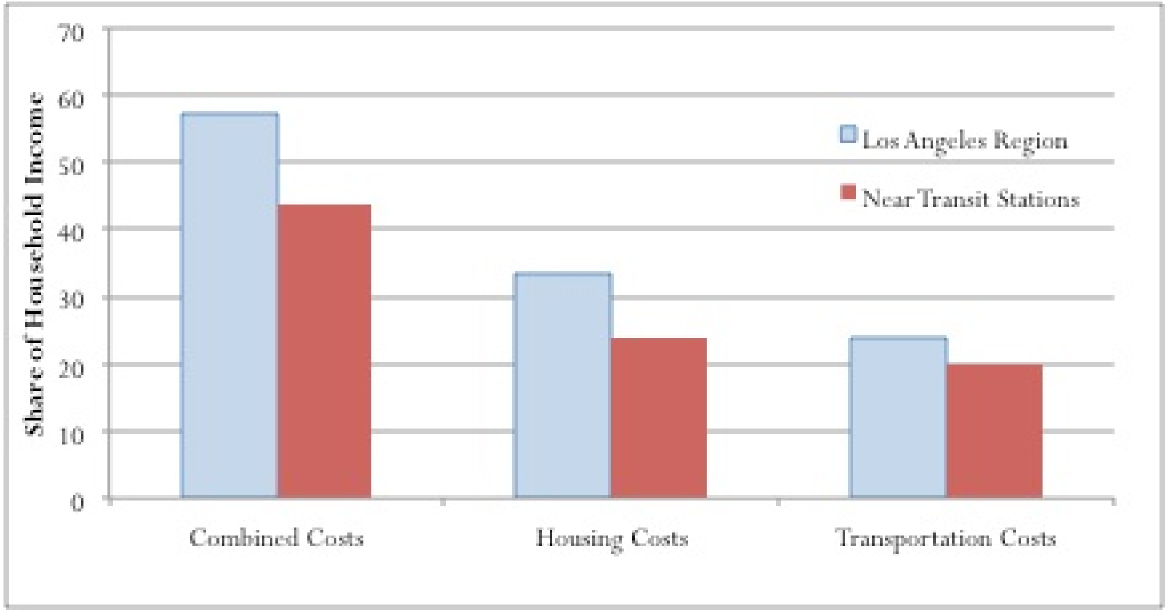
[12] Los Angeles Business Council (LABC) Institute, "Building Livable Communities Enhancing Economic Competitiveness in Los Angeles," 2012.

[13] American Community Survey, 2011.

Figure 3. Transportation and Housing Costs as a Percent of Income near Transit Compared to Regional Average, 2000



Source: National TOD Database: toddata.cnt.org, 2000

This is a positive finding that, if expanded upon, can further deliver the co-benefits described in this section. Based on data collected by the American Public Transportation Association (APTA), households living near transit in Los Angeles County can save $11,238 in transportation costs every year.[14] This can present significant cost savings for lower income families, who tend to spend a larger share of their income on housing and transportation costs.

Equitable TOD Prevents Growing Congestion and Worsening Air Quality

In areas where demand for housing near transit increases, housing prices will increase, potentially pricing lower income people out of the market for rental or ownership housing in a TOD. Instead, lower-income people may only be able to afford housing in places farther from transit and jobs. Low-income workers are often transit-dependent (meaning they do not earn enough to afford a car), but in order to access economic opportunity – especially in a depressed economy where unemployment in December 2012 was at 10.2% – workers will find a means to get there, even if it means purchasing a car they can not afford. When lower-income workers can easily access transit, they are more likely to take transit, but living near transit is key to that equation. If lower income families are priced out of neighborhoods on the Metro system, not only might their transit use decrease, but their driving might increase, too.

Greater transit ridership generated by TODs can help reduce congestion and improve overall air quality. Equally important is that there are fewer “cold starts” – significant contributor to regional air pollution – when more people walk or bike instead of drive to transit. A TOD that mixes housing, employment, services, and amenities facilitates more walking and biking in the neighborhood, supports healthier, more active lifestyles and can reduce congestion.

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[14] American Public Transportation Association (APTA), October Transit Savings Report, 2012.

Equitable TOD Promotes Improvements in Community Health

Equitable TOD has the potential to promote significant improvements in health across a population, if health considerations are also addressed in planning, design, and implementation. Increased physical activity resulting from increased active transportation (e.g., walking, biking, and public transit) is associated with decreased rates of obesity, diabetes, cardiovascular disease, osteoporosis, depression, and some cancers. Carefully designed bike and pedestrian infrastructure – along with measures such as traffic calming and crime prevention through environmental design – promotes active transportation in TODs. Access to healthy and affordable retail and healthy food can also help to prevent obesity and diabetes. Parks and green space, as well as use of cool roofs, green roofs, and cool pavements, can reduce health risks of urban heat islands, which is an issue of increasing importance as we experience the impacts of climate change. Safe parks and open space also provide opportunities for physical activity. Other aspects of TOD building design and construction – such as shaded sitting spaces for community congregation, energy efficiency, healthy building materials, etc. – can also promote healthier communities. Consideration of health is critical in equitable TOD, because in the Los Angeles County context many of these developments will occur in neighborhoods and populations with high shares of chronic disease, poor health outcomes, and limited opportunities for health benefits.

Equitable TOD Helps Los Angeles County's Economic Engines Grow without Gains in Congestion

Los Angeles County employers in major job centers require workers with a variety of skill sets, earning wages across the income spectrum. Workers with less than a bachelor's degree fill over half of the nearly four million jobs located in Los Angeles County, and nearly 60% of the county's jobs pay less than $40,000 a year.[15] Housing the full income range of the workforce is a key priority to support the lasting health and growth of Los Angeles County's economy.

Successful Equitable TOD implementation can help Los Angeles County's economic engines grow without corresponding gains in congestion. Many employers located in places like Downtown Los Angeles, West Los Angeles, and Santa Monica greatly benefit from the agglomerative benefits of these concentrated job centers. Due to the convenience of locating near related firms or the ability to attract a qualified labor pool, these areas' desirability as a place to conduct business command a premium in rents. Some of these places serve as job centers that LACMTA and other local transit agencies strive to serve in order to reduce congestion and to generate a significant share of transit ridership.

Though many may perceive these job centers as offering only high end, high paying jobs, as illustrated in **Figure 4** the reality is that commuters to these job centers earn various incomes. Building new residential development targeted to the highest end of the real estate market will not create transit districts that accommodate the range of employees necessary to meet the economic growth that is anticipated for these and other job-rich centers of economic activity.

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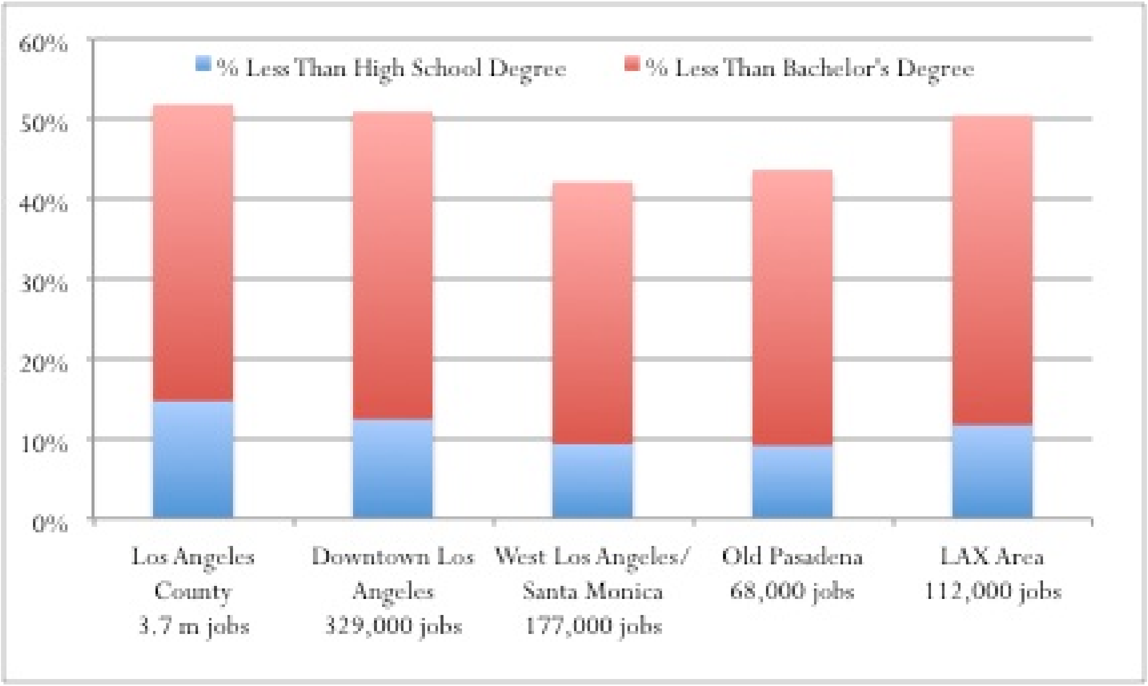
[15] Source: U.S. Census, Longitudinal Employer Dynamics, 2010.

Figure 4: Annual Wages for Workers in Select Los Angeles County Job Centers, 2010



Source: U.S. Census: Longitudinal Employer Dynamics, 2010

Equitable TOD has the potential to confer many benefits on lower income families as well as the region overall. Stable transit ridership, reduced congestion, improved air quality, improved health, and enhanced economic prosperity are all benefits that the region can gain from supporting housing in TODs with a broad mix of incomes.

How Transit Agencies and Metropolitan Planning Organizations Support Equitable TOD

Regional transportation authorities support equitable transit-oriented districts in a variety of ways, ranging from internal policies and practices to direct funding for equitable TOD infrastructure and development. This section explores a variety of case studies of both Metropolitan Planning Organizations (MPOs) and transit agencies across the country, with a focus on understanding how and whether these examples could be applicable to the activities of LACMTA and the Southern California Association of Governments (SCAG – the Metropolitan Planning Organization for five counties within Southern California, including Los Angeles County).

Though LACMTA is a transit provider, many of the MPO programs described are activities that LACMTA could pursue as the county's agency responsible for allocation of federal transportation dollars. The case study matrix (**Appendix A**) compares the activities, motivations, and funding sources for these programs relative to LACMTA. In most cases, federal Congestion Management and Air Quality (CMAQ) and Surface Transportation Program (STP) funds are the primary funding source. LACMTA is the main allocator of these funds in Los Angeles County, and would thus be the entity determining their use.

Regions Evaluated

Los Angeles County is a unique case that cannot easily adapt precedents from other cities; it must pick and choose strategies from other regions. Regions that rival the county in terms of population size or geographic diversity, such as New York or Chicago, are not strictly comparable in terms of the scale or context of their transit systems. New York and Chicago both have larger fixed-guideway transit networks than Los Angeles has, and they operate legacy systems that played a key role over the last century in shaping regional land use patterns to naturally support transit. Further, the transit agencies do not have significant land holdings, and thus have limited joint development programs. Conversely, Los Angeles County is introducing a newer transit technology into a land use pattern that was shaped by the automobile, which requires a retrofit of the built environment in order to reap the transit benefit. Rapidly growing transit systems, such as Portland, Seattle and Dallas, share more in common with Los Angeles County in terms of the age and size of the transit system, land use context, and joint development opportunities, but do not face other challenges associated with being one of the largest, most diverse regions in the country. This analysis considers programs in the San Francisco Bay Area, Portland OR, Minneapolis/St. Paul, Dallas, Atlanta, Chicago, Washington DC, Seattle, and Boston regions.

Overview of TOD Programs – Metropolitan Planning Organizations

Appendix A provides a comparison of the MPO case study programs evaluated. The types of activities in which MPOs are engaged include:

- Technical support and studies on TOD issues
- Grants for station area planning
- Loans or grants offering gap financing for affordable and market-rate development
- Grants for transit infrastructure
- Grants for other infrastructure needed to support higher density development near transit
- Requirements or incentives for jurisdictions to adopt land use changes or affordable housing policies, in order to be eligible for transportation or planning funds.

Motivations

Metropolitan Planning Organizations (MPOs) have stated an explicit need to integrate land use and transportation strategies in order to achieve congestion relief and reduced VMT. The case study MPOs have indicated through empirical research, policies, or mission statements that pursuing transportation or land use in isolation will not achieve these goals in the way that integrated transportation/land use activities will.

Leveraging Infrastructure Funds for Land Use and Affordable Housing Activities

Many of these MPOs studied also have created long-range regional land use visions or scenarios that act as the foundation for the structure of their programs. Areas envisioned for long-range growth (such as "Livable Centers" in Atlanta or "Priority Development Areas" in the Bay Area) are prioritized for investments in planning and transportation infrastructure. Their programs are explicitly tied to these land use visions, and requirements or incentives for specific local jurisdiction land use policies are designed to help implement the regional vision. In a few cases, the regional vision includes objectives related to the affordability of new housing, and evaluation criteria for grants offers additional points to applicant jurisdictions with affordable housing development policies.

Offering Grants or Loans for Development

Despite efforts to encourage TOD planning in San Francisco and Portland, the high cost of infill building has posed an ongoing barrier. MPOs that provide funding or financing for private development have often had longstanding station area planning, capital infrastructure grants, or other programs to support TOD, but have found that the high cost of building in transit-rich infill locations is an ongoing barrier to implementing TOD, especially in emerging market locations. The Bay Area Metropolitan Transportation Commission (MTC), for example, had a funding program for station area planning for over 10 years; a regional TOD Policy, setting requirements for development near future transit; and a program that invested in transportation infrastructure in designated growth areas; all before it decided to invest in the Transit-Oriented Affordable Housing (TOAH) Fund (for more in-depth information on the TOAH Fund see **Appendix F**.) The market study that evaluated the need for the TOAH Fund found that only a small fraction of developable infill land was located in transit-rich locations, indicating that this property was a scarce asset that should be preserved for development that could support regional goals of reducing vehicle miles traveled and congestion. The TOAH Fund Market Study further found that affordable housing developers were unable to consider many sites near transit due to higher land costs, and concluded that the fund should open up greater, higher density affordable housing and commercial development opportunities near transit.

Similarly, Portland Metro's TOD program offered technical support to local jurisdictions, but found that the majority of higher density development was concentrated near the core of the region where the market was strongest and that more outlying suburban locations had trouble demonstrating that a market existed for higher density development. The TOD program therefore expanded to offer grants supporting pre-development costs for projects that could help demonstrate demand for higher density housing, employment, and commercial space in emerging market locations. Subsidized projects range from townhomes to 20-story student housing. As part of the grant allocation process, Portland Metro calculates the number of additional transit trips that will be generated from its subsidy.

Funding

Federal transportation dollars – particularly CMAQ and STP funds – are a main source for planning, infrastructure, and development grant and loan programs. However, these sources have limitations on what they can fund, and are limited to projects that are directly transportation related. To unlock this funding for development and infrastructure projects lacking a direct nexus with transportation, a number of regions, including Portland, the Bay Area, and Dallas, exchange CMAQ and STP funds for discretionary funds, such as transit agency fare box or city parking revenues.

Overview of TOD Programs – Transit Agencies

Appendix B provides a brief comparison of transit agency programs, which primarily focuses on two activities:

- Station area investment and technical support in TOD efforts
- Joint development and other uses of agency owned land

To understand how transit agencies support TODs, the team interviewed joint development or TOD staff at 11 agencies across the country, including: Bay Area Rapid Transit (BART), Charlotte Area Transit System (CATS), King County Metro Transit, Metropolitan Atlanta Rapid Transit Authority (MARTA), Massachusetts Bay Transportation Authority (MBTA), Miami-Dade Transit (MDT), Santa Clara Valley Transportation Authority (VTA), TriMet, Utah Transit Authority (UTA), Washington Metropolitan Area Transit Authority (WMATA), and LACMTA.

Motivations

Transit agencies primarily engage in TOD through joint development or other use of agency-owned property. The top reasons transit agencies engage in joint development are increasing ridership, increasing revenue, and, in several cases (including LACMTA), promoting economic development.

Joint Development

Joint development is a specific type of transit-oriented development in which a transit agency partners with one or more other public agencies or private developers to develop land near a transit station. Typically, transit agencies engage in joint development by selling or leasing land to a public, private, or non-profit developer. Joint development is a secondary focus for most transit agencies, with the daily challenges of providing service and meeting operating needs occupying the bulk of staff time.

Case study evaluation specifically focuses on agency experience with land sale, land discount, and land donation in support of equitable TOD, and also covers other strategies, such as affordability policies, flexible payment structures, and strategic land acquisition. Key findings from an analysis of federal and state law, as well as the case studies, are summarized below:

Land Sale

LACMTA's and many other agencies' current joint development preference is to lease land rather than to sell, in order to maintain an ongoing stream of revenue and control over the quality and use of land near its stations.

- Relevant Regulation
    - From the Federal Transit Administration: If land has a transit purpose, it can be sold for joint development provided the agency maintains access through an easement or covenant. In that case, federal law does not require the sale to be made for fair market value; it must only return a "fair share of revenue" to the transit agency. If land does not have a transit purpose, it can be sold with permission from the FTA. However, in that case, federal law typically requires the land to be sold for fair market value.

    - From California Law: Land that is being sold must first be offered for the development of low- and moderate- income housing when an agency seeks to dispose of it.
- Case Study Lessons:
    - Historically, FTA has deferred to the transit agency board or executive leadership to define a "fair share of revenue" and has allowed for flexibility in allowing for increased fare revenues to be considered. However, FTA has recently released a draft joint-development circular that may strengthen FTA's role in this determination.
    - Some agencies sell land if they do not have the capacity to manage leases over the long term.
    - In some cases, land sale deals have included a covenant requiring affordable housing (Charlotte and Portland, OR, provide examples of this strategy).

Land Discount

- Relevant Regulation from FTA: The only stipulation in federal joint-development rules is that a transit agency must receive a fair share of revenue from a land sale or land lease. Historically, FTA has deferred to the transit agency board or executive leadership to define a "fair share" and has allowed for flexibility in allowing for increased fare revenues to be considered. However, FTA has recently released a new draft joint-development circular that may strengthen FTA's role in this determination.
- Case Study Lessons: Some transit agencies interviewed indicated that, when a project was required to include affordable housing, the negotiated price (sale or lease) may be lower than it would have been without such a requirement.
- Outstanding Question: County Counsel has raised questions as to whether LACMTA's authorizing statutes expressly empower Metro to discount land. This study does not evaluate those provisions and statutes.

Land Donation or Transfer

Land transfer occurs when a transit agency transfers land to a governmental authority for public use. Federal law allows transfer of surplus land purchased with federal dollars to a public agency for little or no compensation if the property will remain in public use for five years and if the public benefits outweigh any federal interest in the land.

- Relevant Regulation from the FTA:
    - It is theoretically possible for a transit agency to donate land to a private entity but challenging to demonstrate the "fair share of revenue" requirement.
- State Law:
    - California law does not appear to require a transit agency to sell or lease surplus property for fair market value, except in limited circumstances when that property was purchased using gas tax funds or where it is already developed as residential property. While there are no stated restrictions, County Counsel interprets the law as not explicitly stating that such an activity could be allowed. The Options chapter discusses potential next steps to clarify whether land discount or donation for affordable housing is a permitted use under California law, should the LACMTA board feel such clarification is needed.
- Case Study Lessons:
    - Some transit agencies (e.g., Utah Transit Authority and Bay Area Rapid Transit) have donated land in exchange for a future share of profits from development near transit but not necessarily to support affordable housing.
    - The interviews did not uncover examples of land transfer.

Flexible Payment Structures

To make projects more financially feasible, transit agencies can structure the terms of sale or lease of property so that upfront costs are lower and can then lease or delay purchase payments to phase in over time. While LACMTA has implemented flexible payment structures for some joint development projects, this has not been implemented explicitly with the goal of reducing costs for affordable housing.

- Relevant Regulation from the FTA: The payment structure for deals is outside of the purview of federal guidelines, therefore limiting federal review of this aspect.

- Case Study Lessons: Strategies related to lease or mortgage structures are useful for helping developers finance affordable and market-rate projects and appear to be relatively common (e.g., MBTA in Boston).

Affordable Housing Policies

In 2009, FRESC (the Front Range Economic Strategy Center) and Enterprise completed a study showing that at least nine of the largest transit agencies in the country had policies supporting affordable housing, including LACMTA. With one exception, these policies state that provision of affordable housing or moderate/workforce housing as a joint-development goal, but do not set explicit targets.

Case Study Lessons:

- The Metropolitan Atlanta Rapid Transit Authority (MARTA) has the most aggressive policy for affordable housing, stating that at least 20% of residential or mixed-use TOD projects must include affordable housing. However, MARTA has not produced any units to date under this policy, for a variety of reasons.
- Some agencies, including the MBTA in Boston and King County Transit in Seattle, must comply with other state, regional, or local policies that require an explicit share of new housing development to be affordable.
- There is a difference between affordable housing policy and practice. Many agencies without policies are successful at joint development of affordable housing due to the practices of joint development staff (this includes Miami-Dade Transit, which balances "utility with equity" in its negotiations and interpretation of a fair return.

- LACMTA has a record of producing affordable housing in its joint development projects – an estimated 25% of joint development-produced units are affordable – through a combination of local government policies promoting or requiring affordable housing and the practice of joint development staff.

Strategic Land Acquisition for Joint Development

- Relevant Regulation
  - From the FTA: Under federal law, a transit agency may purchase land specifically for the purpose of joint development.
  - From California Law: LACMTA's express authority to engage in this activity remains an open question for County Counsel, and Measure R funding may place restrictions on this activity. Further analysis may be necessary.
- Case Study Lessons: Several transit agencies outside California (e.g., TriMet, Miami-Dade Transit) have purchased land specifically with joint development in mind to support redevelopment, affordable housing, and increased ridership.. None of the California-based Case Studies involved agencies purchasing land specifically for joint development.

LACMTA Comparison with National Examples

Appendices A and B evaluate the applicability of each of the MPO and Transit Agency case studies to LACMTA. In general, several of the activities, programs, or policies described in the above sections are similar to activities LACMTA already pursues. Broadly, some other agencies make more explicit connections in their policies between equitable TOD practices and their stated goals of reducing VMT or increasing transit ridership. Policies within several agencies (particularly MPOs) are more streamlined and connected; for example, the allocation of federal transportation funding is linked to land use and TOD goals. For MPOs, such connections may be easier to make than for an agency such as LACMTA, which does not have responsibility for an internal regional land use vision. Some case study MPOs use evaluation criteria for allocation of federal transportation funds as a mechanism to leverage TOD and affordable housing goals. The evaluation criteria within the Call for Projects at LACMTA do not specifically include criteria directed to achieve land use planning or equitable TOD results.

Within transit agency examples, TriMet and BART are two agencies whose activities are more streamlined across departments. TriMet real estate and joint development staff work in a TOD department that plays a role in new corridor planning at the MPO (Portland Metro) and station area planning in local jurisdictions. BART planning and real estate staff also play a role in station area planning and in considering TOD opportunities in corridor planning in Contra Costa County.

TOD Program and Financing Tools in Los Angeles County

Overview of Planning and Infrastructure Programs Supporting TOD Outcomes

Planning Tools Today

Los Angeles County supports TOD planning on different scales (regional, corridor, and station area) and different types of planning work (participatory, regulatory changes, CEQA analysis, and more); only LACMTA's grants have focused exclusively on TOD. There are four planning grant programs at the state, regional, and county levels that LACMTA and other agencies utilize, including:

- LACMTA's TOD Planning Grants (not an ongoing program at this point);
- LACMTA's additional planning support programs
- Southern California Association of Governments (SCAG)'s Compass Blueprint Demonstration Project program;
- The California State Strategic Growth Council's planning grants; and
- Caltrans Community Based Transportation Planning and Environmental Justice grants.

LACMTA's TOD Planning Grants Program has awarded $15.3 million through 22 grants over three rounds of funding in the last 18 months. Though still very new and not yet an ongoing program, it has been a valuable resource for Los Angeles County in supporting jurisdictions that want to reshape zoning codes to support TOD. LACMTA expects that planning resulting from its grants will lead to land use changes that increase ridership, reduce congestion, and improve air quality. The flexibility of the funding source allowed LACMTA to fill a preexisting hole in the kind of planning dollars available to local jurisdictions, especially by providing funding for State-required Environmental Impact Reports (EIRs) that are necessary precursors to making regulatory land uses changes.

Within the first round of grants, LACMTA required that all planning projects change land use regulations to support TOD. This requirement did not apply in subsequent rounds. The grants have been used to fund specific plans: EIRs; TOD Overlay Zones; design guidelines; initial study; urban design plans; a TOD guidebook; master plans; streetscape plans; and updates/amendments to general and community plans. LACMTA grants have been available to municipalities with land use regulatory control over property within ¼-mile of designated transit corridors and within ½-mile of designated Metrolink Station, Joint Powers Authorities, and Councils of Governments that represent such municipalities. LACMTA also requires planning projects be completed in 24 to 36 months.

LACMTA's additional planning support programs include the First/Last Mile Strategic Plan, the Climate Change Adaptation Strategy for Los Angeles County, and integration of the Sustainability Policy and the Complete Streets Framework into the Call for Projects and other LACMTA programs. **Appendix C** explains these strategies further.

SCAG's Compass Blueprint Demonstration Project Program is a competitive planning grant program available for all jurisdictions in the SCAG region for the following purposes: land use planning and design; market feasibility analysis; outreach and engagement; sustainability services; transportation and parking; and visualizations. Because of the funding streams available to SCAG, the program does not fund EIRs, or architecture and engineering projects. SCAG recognizes that these are key pieces to implementation of TOD and other planning work, but is limited by the restrictions on its funding sources. SCAG manages the administrative aspects of the grant in order to encourage local governments without such administrative capacities to apply. State level Strategic Growth Council grants have also been filtered through this program in order to support implementation of the regional Sustainable Communities Strategy. Strategic Growth Council Grants also include provisions to support community health.

Due to popular demand, the size and scale of Demonstration Project grants has grown from seven projects funded in 2006 at a range of $10,000 to $20,000 per grant to 27 projects in 2013 with an average project size of $175,000. There is no dedicated source of funding for this program; the largest source has been State-level consolidated planning grant funds.

Because the program has been in place since 2005, SCAG sees applications that follow on preliminary plans, like several LACMTA TOD Planning Grants. SCAG funded a TOD corridor study of the Orange Line that recommended land use changes at key stations on the line; in Round 3 of LACMTA's TOD Planning Grants, the City of Los Angeles submitted an application to conduct more in-depth planning to make those changes. This example suggests potential ways of ensuring SCAG and LACMTA planning activities are complementary rather than overlapping in the future. SCAG also offers other assistance for local planners, including *Toolbox Tuesdays*, which offers training in advanced planning tools for practitioners and the public at large.

State level Caltrans Community-Based Transportation Planning (CBTP) and Environmental Justice Grants (EJ) are available for TOD planning. CBTP grants are designed to fund coordinated transportation and land use planning that promotes public engagement, livable communities, and a sustainable transportation system, while EJ grants are more focused on supporting inclusive public participation in land use and transportation planning. This program is meant to leverage funds from other program sources, and is compatible with other more implementation focused grants.

Federal grants for planning TOD are very limited. MAP-21 includes an allocation of $10 million a year for the TOD Planning Pilot Program, which could be a source for TOD Planning for jurisdictions across the County. Per MAP-21 guidelines, this program will only be available for planning along corridors in the New Starts process. Initially funded in early 2013 as part of a congressional continuing resolution vote, FTA has yet to prepare a Notice of Funding Availability that would outline the guidelines for applicants interested in the program. In the past, HUD and FTA have managed competitive grant programs, including TIGER planning and infrastructure grants and Community Challenge Grants. However, the long-term outlook of these programs is uncertain, and the most recent 2013 round of TIGER grants does not include a planning component.

Incenting Planning for Equitable TOD at the Local Level

None of the above programs has specific criteria requiring evaluation of equitable TOD or affordable housing. However, several recent local examples provide new models for integrating affordable housing into planning.

A key feature of the Cornfield Arroyo Seco Specific Plan (CASP), which the City of Los Angeles recently approved, is the provision of Bonus Floor Area and/or Transfer Floor Area for projects that provide affordable housing units. Specifically, the CASP sets the base Floor Area Ratio (FAR) at 1.5:1, and allows projects to be developed at FARs of up to 6:1 if defined affordable housing requirements are fulfilled. The City used a financial analysis tool to establish an affordable housing obligation schedule for developers seeking FAR increases. The financial analysis also produced a Transfer of Development Rights (TDR) Fee to be paid by developers who wish to obtain FAR increases but that do not wish to provide affordable housing units.

Similarly, the City of Santa Monica's update of the Land Use and Circulation Element (LUCE) of the General Plan allows developers to request additional height and FAR with the provision of a community benefit, including complying with the City's Affordable Housing Production Program, but requires other specified community benefits for additional FAR increases.

Inclusionary zoning has historically been a key policy tool to encourage production of affordable housing. However, the 2009 *Palmer vs. City of Los Angeles* decision eliminated inclusionary zoning for rental development projects in the City of Los Angeles, and many other cities across California are now hesitant to pursue inclusionary zoning for fear of triggering a similar lawsuit. The City of Pasadena has maintained its inclusionary ordinance, which requires 15% of units within new development projects be affordable to low- and moderate-income households and allows developers instead to pay an in-lieu fee, based on a fee schedule established by the City.

Planning Gaps Summarized

- LACMTA has temporarily provided TOD Planning Grants and presently does not expect to sustain this program. However, Metro staff is evaluating the possibility of continuing it on an ongoing basis.
- The rounds of LACMTA's TOD Planning Grants that required projects to make regulatory land use changes and funded CEQA analysis temporarily filled a gap in planning tools. Making this a fixed component of an ongoing program could fill this gap.
- Evaluation criteria for LACMTA and all planning grant programs could relate funded plans back to regional or countywide objectives. valuation criteria relating to the Sustainable Communities Strategy (SCS) could be strengthened in both LACMTA's Call for Projects and TOD grant programs and will be a key focus of SCAG's program and state Strategic Growth Council programs in the future. Linking the SCS into these grant programs could also reinforce the consideration of healthy infrastructure and planning as key objectives. Other criteria could relate more strongly to transit ridership goals or reduced vehicle miles traveled.
- Planning grants could leverage greater community benefits, such as affordable housing, by ensuring that applicants engage in activities to understand how different land use regulations increase or decrease value for developers. The Cornfield Arroyo Seco Specific Plan (CASP) in the City of Los Angeles and the City of Santa Monica's update of the Land Use and Circulation Element (LUCE) both offer examples of how planning efforts in transit-oriented districts can offer density bonuses, parking reductions, or other incentives to developers to incorporate affordable housing. Programs could incorporate these findings by putting in place "value capture" criteria and making eligible funding for analysis of mechanisms to incent affordable housing.

Infrastructure tools today

Aside from locally funded infrastructure mechanisms such as Mello Roos districts, general fund allocations, or now defunct tax increment financing, *LACMTA's Call for Projects* (aka "The Call") is the major source of funding for TOD-supportive infrastructure in Los Angeles County. The Call allocates federal, state, and regional transportation funds for a range of transportation related projects. Funding is distributed in eight modal categories, and scoring criteria vary by category. All of the Call's modal categories can potentially support infrastructure needed in transit-oriented districts, but the Pedestrian Improvements, Bicycle Improvements, and Transportation Enhancements categories are particularly geared to support investments in active transportation modes. The Regional Surface Transportation Improvements (RSTI) can also be used for larger projects, such as regionally significant arterial highways. The 2013 Call will distribute $150 million, with an addition $49.3 million in funds unspent from the previous year. About 25% of the Call is dedicated to bike and pedestrian transportation projects, with RSTI and Transportation Demand Management categories often including additional pedestrian and bicycle improvements components.

Because the Call is designed to serve all jurisdictions in the region equally, it does not call out TOD specifically as a priority in any scoring criteria. However, the scoring systems for some modal categories include metrics that could make projects that support TOD more competitive, particularly within the Land Use scoring criteria. These criteria are aimed at giving points to projects that advance the goals and priorities of the adopted Regional Transportation Plan/Sustainable Communities Strategy (RTP/SCS). In the 2013 Call, projects located in High Quality Transit Areas (HQTAs) can receive up to 4 points. However, projects that are not in these areas may also receive those points if they can demonstrate how they will improve bicycle and pedestrian access to local destinations and/or regional transportation centers.

The Call also has Land Use criteria that give points to projects if they implement or relate to previous planning work done in the community. The criteria specifically call out land use and zoning changes, housing preservation programs, economic development initiatives, updated TOD ordinances, and Compass Blueprint projects as plans that can be referenced to gain these points.

In addition, every project submitted to the Call must fill out the Impact Checklist, which is intended to document how the needs of pedestrians and bicyclists were considered in the process of planning and/or designing the proposed project. The Checklist was developed in response to recent federal and state policies that call for the integration of pedestrian and bicycle plans into transportation plans and project development. In theory, the Checklist could disqualify projects from receiving funding if they do not integrate pedestrian and bicycling. However, the division of the Call into modal categories ensures similar types of projects compete against one another (e.g., goods movement projects compete only with other goods movement projects).

Local sources: Impact Fees, Community Facilities Districts, Measure R.

Local jurisdictions can use Impact Fees or Value Capture mechanisms such as community facilities districts (aka "Mello Roos") to fund TOD-supportive infrastructure. These are not ongoing programs with dedicated sources of funding, but are a set of tools that have been used in different communities to support TOD related infrastructure. Depending on how the tool is structured, this approach can support transportation infrastructure (e.g., streets, sidewalks, and bike lanes,) as well as water, sewer, parks and open space. In 2010, the City of Los Angeles set aside 10% of their annual Measure R local return funding for bicycle and pedestrian improvements(for 4 years), about $3.27 million for the 2011 fiscal year.

Parking

Parking Policy can support public infrastructure and catalyze new development. Local jurisdictions in Los Angeles County have successfully developed parking management and regulatory strategies that catalyze TOD, with two notable examples being the unbundling of parking from reuse of historic buildings in downtown Los Angeles and allowing for an in-lieu parking fee for new uses in historic buildings in Old Pasadena. Such strategies could also be used to support equitable TOD by lowering the overall cost of development. Developers interviewed for the study often noted the potential to reduce parking for affordable housing development (compared with market-rate) when zoning policies support such flexibility. In addition, developers noted the potential to share parking within TOD, allowing daytime transit users and evening residential parkers to share spaces.

Infrastructure gaps summarized

- Within LACMTA's Call for Projects, there are no specific requirements or points awarded for projects that use infrastructure investment to catalyze new development or increase transit ridership.
- High Quality Transit Areas ("HQTA" – areas with transit operating at least every 15 minutes at peak) are not necessarily given preference in the allocation of funding for pedestrian, bicycle, and traffic calming/ complete streets infrastructure. In the 2013 Call, LACMTA included new scoring rewarding projects

located in High Quality Transit Areas. However, the scoring criteria seem to allow for exemptions, for instance, if the project applicants can justify why their project is not in a HQTA.

- LACMTA's Sustainability Policy also offers a quantitative framework for determining the infrastructure investments that will result in the greatest VMT benefits in various geographic contexts – a key outcome of TOD efforts. However this policy is not explicitly linked to Call for Projects.
- During study interviews several transit agencies and MPOs described programs that evaluate infrastructure grant applications from local governments with criteria that include provision of an affordable housing plan or policy. This includes TriMet's joint development program and the Metropolitan Transportation Commission's Transportation for Livable Communities Program (now One Bay Area Grants). No such evaluation criteria exist in the allocation of infrastructure funds in Los Angeles County.

Overview of existing financing tools and gaps for equitable development in TODs

Market-rate developments are typically financed with conventional debt or equity that relies on the ability of the project to support the financing needed: sale prices for condos; rental income for multifamily. The production of affordable housing requires public subsidies to fill the gap between the commercial mortgage the cash flow generated by a project can support and the total development costs. As some or all of the rents are restricted to be affordable, the income generated by a project is typically not sufficient to cover both the operating costs and a large enough conventional mortgage to pay development costs[16.] Further, the reduced cash flow does not offer anywhere near the rate of return necessary to secure an equity investment to fill the gap. Public subsidies for deals with a portion of affordable units include loans from the Federal, State or local governments, Low-income Housing Tax Credits, Tax Exempt Bond financing. The subsidies are typically used in conjunction to conventional financing from private lenders and CDFIs.

Affordable, mixed-use and mixed-income developers use several financing sources throughout the development process to acquire, plan for, and implement projects. This study examines the existing financing tools, identifies gaps and the needs of specific types of transactions, in the following categories:

- Acquisition
- Pre-development
- Equity
- Conventional permanent debt
- Low-income Housing Tax Credits (LIHTC)
- Long term public subsidies
- Preservation Transactions
- Mixed-income Transactions
- Mixed Use Transactions
- Community Facilities

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[16] As an example, in Los Angeles County, a household with an income at 30% AMI can afford monthly payments of $486, which just covers operating costs per unit per month. As such, this household can't afford to pay for a share of a conventional mortgage. A household earning 50% AMI can afford monthly payments of $810, i.e. $330 over operating costs, which means it can support a $58,000 mortgage for its unit.

- Fresh Food Retail
- Closing Concerns about the Complexity of Mixed Use and Mixed-income Development in TOD
- Comments regarding Joint Ventures

The study also looks across uses, primarily considering affordable housing but with additional observations related to mixed-use, mixed-income, community facilities generally and grocery retail included within the study. The following are high level observations synthesizing interviews with developers and capital providers, further elaborated in **Appendix H**.

Acquisition: patient and high risk financing

For larger, more complex projects in TODs that require time to secure entitlements, construction, and permanent financing, developers seek long term acquisition loans, with high Loan-to-Value[17] (LTV) ratios to cover carrying and holding costs. Acquisition loans typically come from one of three sources 1) Standard loans from Community Development Financial Institutions[18] (CDFIs), which are limited in term (3 years) and LTV (typically 70% to 85%, up to 95% in some cases for preservation); 2) Loans from banks, which are typically more restrictive and provide lower LTV than CDFIs; 3) Pooled funds, also known as structured funds, that offer long terms and high LTV. There are currently three pooled funds that serve the Los Angeles region, all supporting affordable housing, mixed-income and mixed-use projects with a high proportion of affordable units:

- The Golden State Acquisition Fund (GSAF) offers up to $13.95 million, 100% LTV, 5-year acquisition loans for transactions in the State of California. The Fund is a "structured participation", with a pool of funds from the State leveraging capital from CDFIs, and banks as needed, with up to $93 million in total lending possible over the next 5 years. GSAF was launched in January 2013 and does not specifically target projects in TODs, but its terms effectively support such projects in Los Angeles County.
- The New Generation Fund (NGF), as restructured and scheduled for re-launch in April 2013, offers up to 120% LTV, maximum loans of $15 million, and 4-year loans for acquisition and pre-development transactions in the City of Los Angeles. Loans made through NGF are targeted to support the city's affordable housing pipeline (in particular 9% low-income housing tax credit deals). The City of Los Angeles is exploring possibilities for expansion of NGF specifically for development in TODs. As a result of the restructure, deals in TODs in the City of Los Angeles that qualify for the pipeline could have flexible options for acquisition financing, with a clear path to construction and permanent financing (when they are 100% affordable deals).

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[17] The Loan-to-value (LTV) ratio is a financial term that expresses the ratio of a loan to the appraised value of an asset purchased.

[18] Community Development Financial Institutions (CDFIs) are financial institutions that provide a range of financial products and services in market niches that are underserved by traditional financial institutions. CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.

- The $60 million Los Angeles County Housing Innovation Fund (LACHIF) was intended to serve throughout the county but stopped operating in early 2013. LACHIF may be restructured to provide longer terms with 100% LTV. At the time of this study, the future relevance of this tool within equitable TOD is unknown.

Pre-development: Early and Patient Unsecured Financing

Affordable pre-development[19] financing provided in addition to high LTV acquisition loans or as stand-alone unsecured loans are a scarce resource, which makes development projects with high holding and carrying costs difficult, especially for developers with smaller balance sheets and limited access to equity. This issue challenges all affordable housing developments but particularly TODs, where some complex projects can require a long pre-development time. CDFIs offer some unsecured financing, but in limited amounts (typically around $300,000 to $500,000). Both NGF and LACHIF provide pre-development financing on top of acquisition financing, however only within the maximum LTV mentioned above. Neither offer options for additional, unsecured pre-development financing. GSAF is limited to acquisition only.

Equity

Conventional equity[20] for market-rate and mixed-income projects is available for all stages of financing from a variety of investors (see **Appendix D**). Equity is usually expensive, as is mezzanine debt. Conventional equity is not typically used as a source of financing for 100% affordable projects. Common practice in affordable housing development is to optimize the conventional debt that a project can carry based on its projected cash flow; such debt is less expensive than mezzanine debt or equity. Typically there is insufficient additional cash flow to support any additional financing that need to be repaid with a return, including conventional equity.

Construction and Permanent Conventional Loans

Conventional debt for construction and permanent financing is widely available from the community lending divisions of the commercial banks, who have large Community Reinvestment Act (CRA)[21] needs in Los Angeles County. Facing a huge gap in terms of public subsidies (described below), developers are looking at new ways to leverage the few subsidies left along with debt. For example, developers are increasingly looking to pair very low interest FHA loans (loans insured by the Federal Housing Administration) with other subsidy sources. Smaller properties have more limited access to construction and permanent loans.

Low-income Housing Tax Credit (LIHTC) Equity

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[19] The pre-development phase is defined as the phase ending with the construction loan closing for most transactions, in particular 100% affordable deals or other CRA eligible deals. In some cases, the pre-development phase might be further refined as "pre-entitlement" versus "post-entitlement" phases to reflect the added risk until entitlements are secured. For affordable transactions though, the pre-development phase extends to securing the construction and permanent financing, hence the extension of that phase to "construction loan closing".

[20] Equity is a form of high risk financing that is a complement or alternative to debt in a real estate transaction. In comparison with debt, which must be repaid over time, equity does not have to be repaid. Equity can come from a developer's own resources or be raised from investors. Equity investors expect a return on investment that is typically much more expensive than debt interest cost.

[21] The Community Reinvestment Act of 1977 (CRA) affirmed the obligation of federally insured depository institutions to help meet the credit needs of communities in which they are chartered, mostly through lending or investing, in particular via community development loans. The results of the CRA examination are considered when a financial institution applies to open a branch, merge with another institution, or become a Financial Holding Company.

There are two types of LIHTC: 9% competitive credits and 4% noncompetitive credits. In the current environment, 9% LIHTC are extremely competitive while 4% LIHTC are available; however, the feasibility of deals using 4% credits is challenged by a lack of subsidy in the form of soft loans to complement it. LIHTC equity from direct investors and syndicators is widely available.

Long Term Public Subsidies

Developers face a major gap in long term public subsidies for both 100% affordable housing projects and mixed-income projects. Those long term public subsidies typically take the form of soft public loans with repayment relying on residual receipts, with 55-year or similar terms. In the current environment, resources are not available at the level needed to fill the gap between available financing and the financing needed to make developments financially feasible. This challenge is further explained in the following section.

The following findings relate to specific types of transactions that help illuminate the current funding environment and potential strategies for future development in TODs: preservation; unrestricted multifamily; mixed-income; mixed use; community facilities; and fresh food.

Preservation Transactions

Preservation projects are properties assisted under a variety of Federal programs – subsidized mortgages (Section 236, 221(d) (3) and Section 202), operating subsidies (Section 8), and tax subsidies (LIHTC and tax-exempt bonds) – with restrictions in danger of expiring, at which point the properties could convert to market-rate. In Los Angeles County, 25,024 HUD-assisted units [22] considered to be preservation properties are within a half mile of existing and planned rail or a quarter mile of frequent bus; 64% of all assisted units (39,184) in the county. There are currently many competitive products (FHA 221(d)(4), 223(F), tax exempt bonds) for preservation projects with Housing Assistance Payment (HAP) contracts, for all phases of development. Some transactions require unsecured financing for pre-development expenses which can be costly due to the complexity of restructuring or re-syndicating the projects.

Occupied properties that are unrestricted but are de facto affordable fit a different profile. They are not "preservation" transactions per se and have more limited access to existing preservation tools. There is a lack of options, particularly for small permanent loans with high LTV and longer terms that would allow developers to acquire, stabilize operating properties and restructure them later on.

Mixed-income Transactions and Joint Ventures

Sources of financing are more limited for mixed-income projects, for all phases of development. In most markets with low market rents, 100% affordable deals are easier to finance than mixed-income projects, assuming long term subsidies are available. Throughout the study process, developers noted the challenge of developing mixed-income projects that rely on public subsidy that trigger requirements, including prevailing wage policies that increase development costs. Unless the market rents are significantly higher than the affordable rents (Santa Monica was frequently cited as a positive example), the additional debt that can be supported by cash flow from the market rents cannot compensate for the decrease in subsidy (in comparison to 100% affordable projects). Subsidies from redevelopment agencies used to provide some relief, as they allowed up to 120% AMI affordable rents, allowing for a higher cash flow from some properties.

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[22] HUD-assisted units include project-based Section 8, Section 202 and 811 units.

It should also be noted that CDFIs, which typically provide early acquisition loans, and community development banks, which provide takeout financing, conservatively underwrite mixed-income transactions. They typically make conservative assumptions for market rents to underwrite the transactions and size the debt. This practice tends to make these projects harder to put together, particularly for developers without equity to rely upon. Mixed-income developments with a large portion of affordable housing units qualify for GSAF and NGF acquisition loans, but their underwriting can be expected to be conservative as well.

An example to note is the MacArthur Park project: the first phase was completed with 4% LIHTC; tax exempt bonds; and funds from public-sector partners in the State of California Housing and Community Department, the City of Los Angeles, the County of Los Angeles (City of Industry) and the Community Redevelopment Agency. The commercial component was financed with debt and New Market Tax Credits. LACMTA financed the public garage. There was no discount for the ground lease. Most of the subsidy resources are now eliminated, and the project would not be feasible today without them. Trying to restructure the project as a subsidized mixed-income project such as an 80/20 deal would not have worked as the market rents are not high enough to fill the gap created by the decrease in subsidy[23].

Mixed Use Transactions

As with mixed-income projects, sources of financing are more limited for mixed use projects across the phases of development. CDFIs and community development banks conservatively underwrite such transactions. They typically make conservative assumptions for commercial rents to size the debt.

The pressure to integrate ground floor retail within TOD mixed-use development was often cited as a financing and operating challenge by developers and public sector partners. Often, developers have to build residential properties with a retail/commercial component without relying upon commercial income to generate the cash flow supporting the debt. Even when developers identify potential occupants there is a gap in financing tools for small retail spaces in weaker markets that need operating subsidies or long term public subsidies.

While projects in stronger markets – particularly those with anchor tenants – face fewer challenges, emerging and weak markets consistently wrestle with this problem. Of particular concern are small commercial projects that lack the opportunities of scale to create a vibrant commercial center, risking languishing vacant storefronts and neighborhood disinvestment. Therefore, understanding the market and the opportunity for commercial uses is crucial before making retail a requirement.

Community Facilities

Availability of resources varies with the type of community facility. Programs available include New Market Tax Credits (NMTC) and LACMTA's Urban Greening grants. NMTC are available, however are very competitive and face geographic specific eligibility criteria. Due to their complexity and high transactions costs, they do not work for very small projects. While not a financing tool, LACMTA's Urban Greening Grant uses state funding to study how to add green elements to transit park-and-rides and station areas, including activating spaces through community activities.

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[23] Phase II is still in the pre-development phase, as the developer is working on the commercial space. Phase II has an existing funding commitment from the State Housing and Community Development Department.

Fresh Food Retail

The FreshWorks Fund Program was created in 2011 to meet the financial needs of fresh food retail unable to access conventional financing from commercial banks. The Fund addresses the need for flexible capital for fresh food retail outlets in Los Angeles County. As of now and until the success of the Fund can be fully assessed, there doesn't seem to be a need for an additional financing tool.

Closing Concerns about the Complexity of Mixed Use and Mixed-income Development in TOD

Several of the developers interviewed expressed concerns about incentives that would push them to put together projects that don't financially perform in their markets. These concerns well summarize how public requirements and constrained financing options come together within TODs. One developer summarized the challenge well by saying, "don't ask for a Christmas Tree"—by attaching an unrealistic wish list to development incentives (e.g., land donation, zoning incentives, financial support). A common example was a requirement to include retail space on sites where the market cannot support retail. The premise was, "know when you have a good piece of real estate and do no harm"—don't impede development by piling unrealistic requests on it. For sites that are less attractive to most developers but where there might be reasons to incentivize development, the suggestion was to keep it simple and be realistic. The recommendation was to stay away from development plans in which the *primary* aim is to cater to as many constituencies as possible.

These insights help inform the types of financing and programmatic options worth considering, and even more so, highlight the importance of localities doing in depth analyses of their policies and requirements to test feasibility of development with TODs on a place-by-place basis, rather than having wholesale policies that apply to every situation. Despite these challenges, there are ways to craft approaches that are sensitive to market feasibility, as highlighted in **Appendix D**.

Comments regarding Joint Ventures

Development in TOD in Los Angeles County has been led by a diverse mix of developers – often large companies with a national or regional presence, some with experience in affordable housing, local non-profit developers; and sometimes local community development corporations (CDCs) with a long-term vision and commitment to their neighborhoods. Throughout the study, stakeholders and developers made two major comments.

First, the current environment may not provide opportunities for CDCs who know their communities to participate in large developments in TODs, as those are typically slated for large capacity developers. This may be true particularly as weaker and emerging markets become stronger, and higher capacity developers begin to look at lower income neighborhoods for opportunities. Involving CDCs might help address displacement issues.

Second, it is important to acknowledge developers have different strengths and expertise when it comes to residential development and affordable housing. Plans for development, especially for mixed-income projects, should build on these and not assume developers unfamiliar with affordable housing should handle the affordable piece.

An important step for public agencies and LACMTA may be to encourage joint ventures and develop strategies to ensure that CDCs have opportunities to partner and/or continue to lead development within their neighborhoods of focus. When sites allow, a split development with side-by-side projects (affordable and market-rate versus one mixed-income project) might be the best option, as it would make the best of each developer's expertise, optimize the use of subsidies, and encourage the long term operation and ownership of the affordable units by a CDC. When a

CDC and another developer collaborate, such strategies should include a strong joint venture agreement that specifies an active role for the CDC in terms of community outreach, design, resident services, and property management.

Implementing TOD in Variable Market Conditions

Variations in market strength from station area to station area require different sets of interventions and strategies in order to catalyze equitable TODs. Therefore, it is important to understand how the application of different policy and investment options will vary from city to city and station area to station area depending on market strength, physical characteristics, and overall transit use today and in the future.

Keyser Marston Associates (KMA) assisted the study team in understanding the role that development economics – or market conditions – play in the development of affordable housing units near transit. KMA found that the fundamental constraint to providing affordable housing units is the gap between achievable market rents, the defined affordable rents, and the inability, in many cases, for currently available public subsidies to bridge this gap.[24] This is consistent with the findings from interviews of developers and capital providers.[25]

This section presents a summary of strategies appropriate in different markets. This combines KMA's analyses of the financing gaps in Warm, Emerging, and Cool markets with the study team's analysis of how those markets may deploy different implementation activities for equitable TOD. The study authors outlined strategies for each market based on interviews and, in some cases, directly from KMA's summary.

Overview of Implementation Priorities by Market Strength

The strength of the real estate market in different station areas can influence the ability and need to implement strategies to catalyze equitable TOD. In some cases, markets may leverage their strength as an asset to help finance some implementation activities, or to ensure that a small investment has a larger, lasting impact on enhancing the transit orientation of a neighborhood. In other cases, market strength can render a particular implementation strategy ineffective: a warm market may have land prices that are prohibitively high for efficiently engaging in some activities or may make types of public subsidy designed to catalyze TOD unnecessary and inefficient; a cool market may not be able to support market-rate development, necessitating prioritization of other activities. An emerging market presents a unique short-term opportunity to harness market strength towards certain activities before the market becomes too warm, as its market potential could quickly transition.

The following sections discuss how each of these strategies could be most appropriately implemented to respond to the particular nuances of the market.

Warm Markets

Warm Markets may have many of the same characteristics as emerging markets, although with land prices and market rents already high and, in some cases, with development underway the opportunities to put in place highly effective strategies for value capture and affordable housing production or preservation may have passed. Further, with development already occurring, the need for and benefit from catalyzing new development may be limited, unless catalytic development projects focus on providing new building types with more aggressive, transit-oriented characteristics such as limited parking or higher densities. The study highlighted the need to recognize that:

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[24] Note: financing gaps exist when the sum of supportable private investment and tax credit equity – if relevant – is less than the total development cost.

[25] KMA prepared a series of proforma analyses, summarized below and included in **Appendix I,** to illustrate the feasibility of development by market type and by affordability mix.

- Subsidy for market-rate development in warm markets is generally not necessary. Consistent with developer experience, in "Warm Markets", the affordability gaps exhibited between the premium market rents and the defined affordable rents can be prohibitively expensive to fill. However, it is important to acknowledge the potential benefits of providing affordable housing in sites that offer access to amenities, including high performing schools. While a public land owner giving up the opportunity to attain full market value might not be possible or likely on all sites, it might be worth contemplating a discount in some cases for 80/20 deals (Keyser Marston estimates a 4.5% reduction in the total ground rent payment for each affordable unit if no tax credits or other subsidies are secured).
- Planning is a high priority to ensure that new development supports the goals of equitable TOD, focusing on supporting local, regional and state planning tools and rezoning processes that provide significant incentives to developers who agree to include affordable housing and other community amenities in their developments.
- Further, as with emerging markets, area plans can help communities identify the range of other neighborhood amenities and investments needed to create a comprehensive transit district. Once other amenities are identified, the plan can help solidify future activities to put financing mechanisms in place to build them.
- When possible, affordable housing preservation is a high priority for warm market locations; maintaining affordable housing is more cost effective than building new, given land and construction prices.

Figure 5: KMA Analysis of Warm Markets

Development type	100% market-rate	80% market-rate/20% affordable without the leverage of LIHTC	100% affordable via the 4% Low-income Housing Tax Credit Program	100% affordable via the 9% Low-income Housing Tax Credit Program
Does a financing gap exist?	NO	YES	YES	YES
Can the gap be closed through land discount?	n/a	YES (at 83% as modeled)	NO	YES (at 99% as modeled)
What's the scale of any remaining financing gap?	n/a	n/a	Very large (over $3 million as modeled)	n/a

Emerging Markets

Emerging market station areas are unique in that they may offer opportunities for securing land at lower prices than warm markets, but they may experience a rapid increase in property values and market rents, coupled with significant new market-rate development. These conditions likely lead to displacement of low- and moderate-income families. It is often difficult to identify emerging market locations that have not already experienced an increase in land prices due to speculation, particularly in locations where transit is being built. The study concludes the following:

- Emerging markets provide opportunities for affordable housing developers and public agencies, including LACMTA, to work collaboratively to provide affordable housing units.
- Market-rate development in emerging markets generally does not require a subsidy but such development might be encouraged to include affordable housing and community facilities because it creates the diverse

neighborhoods sought for those locations. Joint development projects that require a developer to provide affordable units is a tool that can be used in all market types, but is most likely to have a substantial benefit over time in emerging markets.

- Public agencies should focus on conventionally financed mixed-income and 100% affordable developments using 9% tax credits in emerging markets. Land subsidy alone (a discount on the ground lease payment from market-rate) or a partial subsidy on the land, complementing the limited subordinate gap financing available, can allow these developments to go forward. Compared to warm markets, the opportunity cost of losing the land's full market value in return for affordable housing uses is significantly less in emerging markets, so these strategies could be deployed much more broadly.
- If new sources of subordinate financing for affordable housing are created, such as housing trust funds, 4% tax credit properties not only may become feasible but may become preferable to 9% tax credits, given a larger number of housing units per transaction and the lack of a highly competitive process for the resource.
- Because emerging markets areas are most likely to be areas of current or future speculation, direct financial incentives should be focused towards these properties. For example, financial tools later mentioned in the report, such as new pre-development funding that can complement the existing acquisition funds in the region, might be targeted for these properties.
- Planning is a key priority activity in emerging markets, to ensure that land use regulations appropriately foster new development that supports the objectives of equitable TOD. Station area plans that adopt new land use regulations that are appropriately balanced with strategies to capture the value of new development for other community benefits can have a lasting impact on the ability for equitable TOD to be implemented.
- Affordable housing preservation may be a top priority within emerging market station areas, and until recently, has been largely ignored within station area planning and other conventional TOD efforts. Since current income-restricted buildings may be at risk – both through the expiration of current contracts or covenants and through the tear-down and replacement process – identifying vulnerable buildings prior to a change in the real estate market is a priority.

Figure 6: KMA Analysis of Emerging Markets

Development type	100% market-rate	80% market-rate/20% affordable without the leverage of LIHTC	100% affordable via the 4% Low-income Housing Tax Credit Program	100% affordable via the 9% Low-income Housing Tax Credit Program
Does a financing gap exist?	NO	YES	YES	YES
Can the gap be closed through land discount?	n/a	YES (at 100% discount as modeled)	NO	YES (at 99% as modeled)
What's the scale of any remaining financing gap?	n/a	Negligible (under $5,000 as modeled)	Large (over $1.5 million as modeled)	n/a

Cool Markets

Cool markets do not have the ability to generate strong enough rents to support new market-rate development and, therefore, are low-priority candidates for activities designed to catalyze or leverage market strength. However, there are other activities that can improve the equitable TOD potential of these station areas and set them up for future activities to help prime the market. In particular, it is important to:

- Recognize that, even though it can be expected that the development of transit stations may enhance real estate values in the area, economics make it very difficult if not impossible to attract market-rate and unleveraged mixed-income developments in cool markets, even if there are no short term costs associated with the land.
- Focus on joint development opportunities for 100% affordable projects, particularly in communities where long term neighborhood change is being considered and community support for investment and developer capacity to implement exists.
- Recognize that visioning and community engagement efforts can help community members, local leaders, and community based organizations coordinate their efforts around a shared vision and set of priorities for future activities. Such efforts may be critical to setting up the political and community support needed to facilitate new affordable housing and investments in other community amenities. For example, if a community engagement effort identifies a need for fresh food, this could help uncover a market demand and may support future grant applications to expand fresh food access.
- Give consideration to joint development for community facilities, retail, and other amenities when economics make long term operation feasible. Community amenities can foster equitable TOD goals by addressing critical needs, such as access to open space, health care, fresh food, workforce development programs, or other services for lower-income residents. Enhancing community amenities will also improve the quality of life in these station areas, helping to increase opportunity for current residents and market potential in the long run.
- Utilize planning efforts to organize the community around a shared vision. Adoption of land use regulations may be a lower priority in cool markets than warm markets where the ability to capture new development opportunities through land use changes is more limited.
- Consider affordable housing preservation as critical to ensuring that residents have stable affordable housing options. Preservation programs that also upgrade buildings to current codes and add green building elements can increase the quality of the local housing stock. However, given limited resources, it may be that countywide priorities focus on preserving affordable housing in areas more vulnerable to loss due to stronger market forces.

Figure 7: KMA Analysis of Cool Markets

Development type	100% market-rate	80% market-rate/20% affordable without the leverage of LIHTC	100% affordable via the 4% Low-income Housing Tax Credit Program	100% affordable via the 9% Low-income Housing Tax Credit Program
Does a financing gap exist?	YES	YES	YES	YES
Can the gap be closed through land discount?	NO	NO	NO	YES (at 98% as modeled)
What's the scale of any remaining financing gap?	Large (over $1.5 million as modeled)	Large (over $2 million as modeled)	Large (over $1.4 million as modeled)	n/a

Options for Public and Philanthropic Partners to Consider

This study has sourced numerous ideas about the ways that public and philanthropic partners, including LACMTA, can work together to create an environment that results in increased equitable development near current and future transit across Los Angeles County. The following is a summary of options that the study authors found have the highest merit for further consideration.

The conclusions and options are detailed in the following four categories:

- Financing
- Planning
- Infrastructure
- Joint Development

Option 1: Financing - Invest financial resources for the creation and preservation of equitable TODs

Acknowledging that addressing the structural lack of public subsidies is outside of the scope of this study, the following suggestions intend to support feasible development projects in the current environment, leveraging the limited public subsidies and low-interest financing available as best as possible.

Seed a predevelopment resource that can take a high level of risk, particularly on privately held properties

The developers' interviews and the research conducted both demonstrate that there is capital available in the market for secured acquisition financing; however, a gap exists for unsecured pre-development capital. The key option for public agencies in this category would be to seed an unsecured pre-development resource that could be leveraged with local and national philanthropic and public sources to serve as a complement to the existing acquisition pooled funds, or on a stand-alone basis via a fund or structured participation. Potential attributes are:

- Unsecured loans.
- Multi-year, up to a 7-year term.
- Up to $1.5 million in size, potentially $3 million, dependent upon the level of community benefit to be achieved.
- The overall pre-development facility would amount to $10 to $15 million, acknowledging a portion will not be revolving.
- Option for forgivable loans.
- Flexibility regarding loan guarantees for smaller developers.
- Focus could be on small- to medium-size developers versus well capitalized developers.
- Available across three market types and all project types (market or affordable), including a minimum percentage of affordability (suggestion – 20%).
- Possibility to prioritize strong joint venture partnerships with CDCs and non-profit developers as a strategy to optimize developers' different strengths and expertise and to use the CDCs' familiarity with communities, particularly in addressing displacement issues. When sites allow, split development with side-by-side affordable and market-rate projects may best leverage developers' expertise and subsidies, but, when projects call for collaborations, strong joint venture agreements should encourage actively involved CDCs.

- Could be housed at a participating foundation, or a CDFI.

Developers and the CDFIs managing the existing acquisition funds would understand the opportunity to bring these complementary resources together. However, no formal integration of the pre-development resource with the acquisition funds would be necessary unless desired by all partners. This would be a straightforward and meaningful step in aligning and incenting the use of existing acquisition funds for TOD. LACMTA's legislative authority to participate in such a fund requires additional study.

Encourage transit-oriented affordable housing preservation

Developer interviews raise the need to consider options for preserving unrestricted but affordable properties near LACMTA transit stops. Local jurisdictions and their partners might consider seeding a resource that could provide permanent loans to acquire mid-size operating properties (40 to 60 units), stabilize the properties and restructure them as restricted affordable housing for long term ownership or sell them to mission-driven owners subject to affordability restrictions. Loans with terms up 10 years with high LTV (90% to 100%) targeted to non-profit developers (guidelines on asset size to be determined) for households with incomes less than 80% AMI that include recapture provisions. LACMTA's legislative authority to participate in such a fund requires additional study.

Investment in this type of effort could be structured as direct funding or credit enhancement, with potential to then leverage the existing acquisition funds and/or additional resources from the CDFIs operating in the region. The existing funds could potentially be expanded to include such a product, but further discussions with the funds' partners will be necessary, as this would be substantially different to the products the funds currently offer (term, risk profile, etc).

Additional considerations for new construction projects

While such a tool is likely longer term, more innovative, and needing a higher level of financial commitment to have impact across the region, local public agencies and their partners might consider investing resources to support the permanent (or semi-permanent/mezzanine) financing of mixed-income development with a focus on projects with 20% or more affordable units. As noted throughout the study, mixed-income projects typically maximize all conventional financing (debt and equity) based on the cash flow generated by the rents, but in Los Angeles County the market rents are usually not high enough to support the additional debt needed to cover the high development costs. Some of the gaps could be addressed by an equity program with a yield discount for construction/permanent phases. A program of this nature might buy-down the equity return and provide affordable equity (a few basis points discount) for mixed-income deals with cash flow sufficient to support the additional hard payments to fill a small funding gap. A program of this nature could be structured as direct funding or credit enhancement. Equity funds might be recoverable and revolving, but one should assume that, in some cases, they might not be returned. For that reason, a program of this nature would have provisions for public benefits and a recapture similar to those seen in affordable housing gap financing.

Option 2: Joint Development- Implement strategies for acquiring and utilizing transit agency owned land to better support equitable TOD

Adopt an affordable housing development policy that addresses different market types and the realities of the mix of uses and incomes that can be served.

- To complement a real estate asset release plan, LACMTA might consider adopting specific affordable housing requirements in agency policy. Goals and requirements can ensure that development projects on transit-agency land incorporate affordable housing production where feasible and appropriate and can provide guidance to agency staff and developers on the expected outcome of development transactions. (Such a policy would also provide a precedent for smaller cities to consider replicating or enhancing.)

- A main focus could be on emerging market sites that offer opportunities for collaboration between developers and public agencies on 100% affordable developments using 9% LIHTC and conventionally financed mixed-income projects. In cool market sites, the focus could be on 100% affordable projects, or mixed-use projects and other community amenities.
- LACMTA's policy for releasing sites should explicitly highlight the potential for the agency to commit sites to developers while holding them until properties are ready to begin construction. KMA's study (**Appendix I**) evidenced the financial impact that this practice can have, particularly in higher value areas where holding costs during pre-development can become prohibitive.

Consider land discounts, transfer, and donation as ways to incentivize equitable TOD.

A strategy for releasing sites might include a practice of allowing for discounted or delayed land sales and leases as a gap filler in making affordable, mixed-income and mixed-use development a reality in all market types. Focusing such an approach in emerging markets would be most effective, and could enable LACMTA to capture the full value of development where markets are already warm.

- Discount land through joint development. While it is not necessary under federal guidelines to justify a dollar-for-dollar discount based on future increases in fare revenue, FTA has accepted the concept as one way to show that a transit agency is getting a fair return on the project. LACMTA could potentially develop a model to calculate farebox recovery from joint development with affordable housing. Bay Area Rapid Transit and Tri-Met have similar models from which to build.
- Structure land transactions to minimize upfront or guaranteed rent in exchange for a share of future performance. While outright donation of land is not permissible in joint development, it is possible to provide land to a project with minimal cost upfront in exchange for a share of future revenues generated by the project.
- Transfer of land to a public agency. Federal law allows transfer of surplus land to a public agency for little or no compensation if the property will remain in public use for five years and the public benefits outweigh any federal interest in the land.
- Continue to utilize tools similar to the KMA proforma created through this process to understand development opportunities. In particular, utilize a model tool as a means to consistently assess the needs of each opportunity. Such a tool offers a straightforward way to understand how to balance the inputs of financial subsidy and land price to make a project happen. Over time, consider adapting the tool to evaluate the impact of no cost pre-development funding, acquisition, mezzanine debt, and equity.
- Strategic land purchases along new transit corridors. LACMTA has an opportunity as it acquires property for future rail lines to purchase nearby parcels that can be developed in a transit-supportive way. Recent changes to federal New Starts rules intend to encourage this type of prospective land acquisition by transit agencies. Adoption of this strategy may require changes to state statutes to allow LACMTA to purchase land explicitly for transit-supportive development.

Areas in need of legal clarity around land for affordable housing and acquiring land specifically for joint development.

In evaluating the feasibility of LACMTA pursuing activities related to joint development, one perspective is that clarification could be obtained in State law in certain areas. These include whether LACMTA's authorizing statutes expressly empower LACMTA to discount land for affordable housing and whether Measure R expressly authorizes LACMTA to acquire land specifically for joint development. State law does not explicitly prohibit LACMTA from discounting land for affordable housing, nor does it explicitly state it is a LACMTA allowed use (though it generally grants Metro discretion in establishing goals for achieving optimal transit). Although no State law expressly prohibits Metro from engaging in these activities, a number of next steps could help show that Metro is expressly empowered to do so:

- The LACMTA Board could explicitly state its interpretation that such a use is permitted and in LACTMA's best interests;
- California law could be amended to clarify that increasing ridership, for example through policies that promote affordable housing near transit, qualifies as a transportation purpose and thus discounting land is explicitly allowed;
- California law could be amended to clarify within the LACMTA enabling legislation that its mission includes supporting affordable housing and transit-oriented districts through joint development.

Option 3:Planning- Enhance coordination across programs for improved land use planning near transit

In the current environment, where local governments are increasingly fiscally constrained, state, regional, and county programs will play a core role in ensuring that land uses and infrastructure near transit bolster transit ridership and reduce congestion. One key element is coordinating the three planning grant sources that currently exist in LA County: Caltrans Transportation and Environmental Justice Planning Grants; SCAG's Compass Blueprint Demonstration Program; and LACMTA TOD Planning Grants. Other sources, such as State Strategic Growth Council grants, should be folded in as available. Several options for leveraging these grant programs to maximize TOD include:

- Expand monitoring and focus performance expectations for existing LACMTA TOD Planning Grant Recipients. For example, LACMTA or a non-governmental entity could ensure that plans engage residents and workers, weigh the pros and cons of multiple alternatives, and adopt new land use regulations.
- Make the LACMTA TOD Planning Grant a consistent recurring program (annual or semiannual).Once current grantees are well underway, establish a regular program with consistent eligibility requirements, performance expectations, and funding stream. Such a program could help encourage local governments to prepare applications and political support well in advance, knowing that a program exists to help them secure funding.
- Include equity and housing evaluations in planning grant applications and tasks. As with MTC's TLC program, the LACMTA TOD Planning Grant application process could include an evaluation of local equitable TOD policies within the evaluation criteria and scoring, including:
    - Current demographic composition of the community
    - Economically vulnerable residents
    - Regional Housing Needs Allocation (RHNA) compliance
    - Allocation of CDBG and other HUD funds through the local Consolidated Plan

  Applicants could also be required to include tasks that recognize the impact of land use regulation changes on the ability to produce or preserve affordable housing (e.g., using parking reductions or density bonuses as incentives for providing a share of affordable housing in market-rate development).

- Include funding for value capture and other implementation based studies in LACMTA TOD Planning Grant efforts. Consider the potential market impact of major decisions involving new transit investments, such as station alignment and groundbreaking. In emerging markets, offer preferential status for applications that consider potential market transition and implement mechanisms to capture revenue for community benefits.
- Coordinate the LACMTA TOD Planning Grant with the SCAG Compass Blueprint program. Denote similarities and differences in program expectations and structures to make it clear that these are not redundant programs. For example, SCAG could offer grants more geared towards preliminary visioning or evaluation of smaller mechanics of implementation, while LACMTA could focus on area planning with zoning code and EIR adoption. The Compass Blueprint program may also offer lessons learned in establishing a recurring TOD Grant program.

Option 4: Infrastructure- Support TOD through coordinated infrastructure finance

Many large regions support TOD or broader livability/sustainability objectives by directing federal Congestion Management and Air Quality (CMAQ) or Surface Transportation Program (STP) revenue to TOD-related infrastructure and development costs. The new federal transportation bill also established the Transportation Alternatives funding which can be used for pedestrian and bicycle enhancements. Since these revenue sources are typically allocated at the regional scale, Metropolitan Planning Organizations are the primary type of organization leading this program. However in the case of Los Angeles County, LACMTA allocates this funding, primarily through its Call for Projects process every two years.

- Integrate specific evaluation criteria in the Call for Projects relating to the provision of affordable housing. While some modal applications in the 2013 Call for Projects make reference to affordable housing, evaluation criteria across all modal categories could award points based on the applicant jurisdictions' plans to fulfill its Regional Housing Needs Assessment (RHNA) requirements, or affordable housing preservation and development strategies within the geography to be impacted by the proposed infrastructure investment. This would be similar to MTC's allocation of its Transportation for Livable Communities infrastructure grants.
- Support implementation of the SCAG Sustainable Communities Strategy (SCS) through Call for Projects. The 2013 Call for Projects applications for some modes reference the SCS and its high quality transit areas, but preference is not necessarily given to high quality transit areas within the project evaluation. Specific points should be allocated for being located within the high quality transit areas and/or specific grant category designed to increase accessibility to transit dependent populations.
- Integrate LACMTA's recently adopted Sustainability Policy into the Call for Projects sustainability evaluation criteria. The Sustainability Policy identifies four "Accessibility Clusters" that reflect different residential density and job access patterns within the county. Integrating the Accessibility Clusters model into Call for Projects will provide a framework for ensuring that future transportation-related investments are appropriate to the various geographic contexts across the county.

Appendix A. Transit Agency and MPO Case Studies: Tools to Support TOD

	Example	Program Description	Program Motivation	Affordable Housing/ Equity	LACMTA Applicability		Assessment for LACMTA
					Funding Source	Ridership / VMT /Smart Growth Nexus	
Development Support	Bay Area TOAH Fund (Metropolitan Transportation Commission, MPO)	- Provides loans to developers in the Bay Area for a wide range of uses, including pre-development loans, acquisition loans (for land/property), construction bridge loans, construction-to- mini-permanent loans (primarily for community facilities: child care centers, fresh foods markets), and leveraged loans. - MTC does not run program, contributed first $10 m as "top loss" grant.	MTC has been investing in smart growth and TOD since the late 1990s (Other programs described below). MTC's programs that are to "accommodate a growing population while providing affordable options, reducing automobile dependency, and protecting open space and farmland."	Yes - Key Focus	Federal Congestion Mitigation and Air Quality Improvement Program (CMAQ) and Surface Transportation Program (STP) (traded with discretionary transportation funds from a county Congestion Management Agency).	Addressing jobs/housing imbalance through greater affordability near transit	LACMTA allocates CMAQ/STP; could arrange similar exchange for discretionary funds

	Example	Program Description	Program Motivation	Affordable Housing/ Equity	LACMTA Applicability		Assessment for LACMTA
					Funding Source	Ridership / VMT /Smart Growth Nexus	
Development Support	Portland Metro TOD Program (MPO)	- Technical assistance to low capacity cities on TOD issues - Staff participation on planning advisory committees - Subsidizes pre-development, tenant development, tenant improvements for market/affordable residential and commercial projects	Designed to encourage projects that “push the envelope” in terms of density or building type (higher density, infill, reduced parking ratios, etc.), acknowledging that these projects are often more expensive to build or carry additional risk.	Have invested in affordable projects. Studying ways to invest in market-rate workforce housing.	CMAQ/STP dollars exchanged with discretionary Tri-Met fare box dollars	Evaluate projects based on transit ridership benefits (being modified to quantify reduced VMT instead, to comply with Metro's Greenhouse Gas reduction targets)	LACMTA allocates CMAQ/STP; could arrange similar exchange for discretionary funds. Staff capacity to engage with developers across Los Angeles County is limitation. Technical expertise exists; available time is limited. Emphasis on ridership/VMT is similar.

	Example	Program Description	Program Motivation	Affordable Housing/ Equity	LACMTA Applicability		Assessment for LACMTA
					Funding Source	Ridership / VMT /Smart Growth Nexus	
Development Support	Metropolitan Council's TOD Grants (MPO side of Met Council)	-Grants for site acquisition, brownfields cleanup, affordable housing, infrastructure and placemaking. -Some LCDA and TBRA programs are for TOD exclusively. TOD LCDA development grants are limited to no more than $1 million for projects not involving site acquisition, and $2 million with site acquisition. -Local Housing Incentives Account provides grants to affordable housing projects specifically.	To demonstrate how increasing density around transit stations can reduce dependence on automobile ownership, vehicular traffic and parking requirements vs. more traditional development. To encourage more transit ridership. Affordable housing is one of Met Council's major objectives, and development grants have a major focus on affordable housing near transit. All programs supporting TOD and smart growth are related back to the region's affordable housing allocation.	To be eligible for funding, local governments must set housing goals with Met Council and develop a Housing Action Plan. (Similar to RHNA.) Cities' progress towards reaching their goals are part of the scoring system for grants. The scoring system benefits projects with an affordability component. One program directly funds affordable housing.	Regional property tax (enabled by state statute)	Projects demonstrate reduced VMT and higher transit ridership of TOD.	Revenue source is not available. But program is very broad, and pieces could be incorporated into existing or future LACMTA programs (e.g., evaluation criteria). Ridership/VMT objectives are similar.

	Example	Program Description	Program Motivation	Affordable Housing/ Equity	LACMTA Applicability		Assessment for LACMTA
					Funding Source	Ridership / VMT /Smart Growth Nexus	
Planning Grants	North Central Texas Council of Governments (MPO) Sustainable Development Funding Program	Offered grants for infrastructure, land banking, and planning	Program to expand rail accessibility and support TOD and local infill development, with overall goal of promoting alternative transportation modes or reduced automobile use and therefore addressing escalating air quality, congestion, and quality of life issues in the region. Also encourages public/private partnerships.	Not currently, but discussions underway to consider transitioning program to include fund for affordable housing near transit.	Local infrastructure funds "swapped" for federal CMAQ and STP funds or for toll revenue.	Reducing congestion and improving air quality major motivation	LACMTA's Call for Projects and TOD Planning Grants do some of the same work as this program (excluding land banking).

	Example	Program Description	Program Motivation	Affordable Housing/ Equity	LACMTA Applicability		Assessment for LACMTA
					Funding Source	Ridership / VMT /Smart Growth Nexus	
Planning Grants	Atlanta Regional Commission (ARC), the MPO Livable Centers Initiative	Awards planning grants to local governments and non-profit organizations for enhancement of existing centers and corridors consistent with regional development policies. Awarded centers and corridors then become LCI communities, and are eligible for larger pool of transportation project funds. No specific MARTA station focus.	Uses capital funds as incentive for good planning. This encourages local jurisdictions to link transportation infrastructure projects with land use planning efforts, and concentrate development in centers.	No specific requirements for equity approach or affordable housing.	STP, with ~$1 million annually for planning grants. (The transportation program funding is a much larger pool of money including federal funds.)	Reducing vehicle emissions and improving air quality are major motivations of focusing growth, and resulting plans encourage walking, biking, transit.	LACMTA's TOD Planning Grants are more focused than the LCI grants, which are available to areas with and without MARTA stations. Connection to focused compact growth and bonus for transportation dollars could be integrated into LACMTA's programs if more comprehensively connected (i.e. TOD Planning grants linked to Call for Projects evaluation)

	Example	Program Description	Program Motivation	Affordable Housing/ Equity	LACMTA Applicability		Assessment for LACMTA
					Funding Source	Ridership / VMT /Smart Growth Nexus	
Planning Grants	San Francisco Bay Area, Metropolitan Transportation Commission (MTC), the MPO Transportation for Livable Communities Program **Transitioning to One Bay Area Grant Program currently.	-Grants for station area and Priority Development Area (PDA) planning. PDAs are areas of focused growth in region. -The grants also for station area planning, to support MTC's TOD Policy requiring local jurisdictions along proposed transit lines to plan for minimum amounts of housing. - Over the course of the program, MTC has funded over 50 station area planning efforts with grants totaling $20 million.	Ensure Implementation of MTC's TOD Policy, to ensure higher ridership on new transit corridors. Support forecasted growth in PDAs as core, transit-rich areas.	No specific requirements for an equity approach or affordable housing in planning grants. However, only jurisdictions that met their RHNA targets were able to receive funding.	STP funds	Designed to support local jurisdictions in doing the planning near transit to reach ridership goals and reduce VMT through focused growth in PDAs.	LACMTA's TOD Planning Grants play a similar role as MTC's Planning Grants. Affordable housing criteria and stronger link to regional land use planning could be integrated in ongoing program.

	Example	Program Description	Program Motivation	Affordable Housing/ Equity	LACMTA Applicability		Assessment for LACMTA
					Funding Source	Ridership / VMT /Smart Growth Nexus	
Planning Grants	Chicago, Regional Transportation Authority (RTA) Community Planning Program	Provides funding and assistance for planning projects that benefit both the local community and RTA transit system.	Goals include: supporting transit ridership and non-motorized station access, reducing the need for parking (esp. provided by RTA). Secondary goals include lowering VMT, improving stewardship of stations, improving access to jobs and mobility for seniors and people with disabilities, and ensuring that the regional transit system plays a key role in supporting livable communities throughout the six-county region.	RTA's Housing and Jobs Policy supports the development of mixed-income, workforce and affordable housing near transit. No specific funding to provide such support. The need for affordable housing near transit is done informally through staff conversations.	FHWA highway planning and research funds (allocated through the Federal Unified Work Program (UWP)) and other local and state sources.	Main objectives are to support transit ridership and non-motorized station access	RTA's program is broader than LACMTA's TOD Planning Grants, given LACMTA focus on plans with regulatory land use changes. SCAG's Compass Blueprint is more similar to RTA's program, especially given broader geographic eligibility.

	Example	Program Description	Program Motivation	Affordable Housing/ Equity	LACMTA Applicability		Assessment for LACMTA
					Funding Source	Ridership / VMT /Smart Growth Nexus	
Planning Grants	Metropolitan Washington Council of Governments (WASHCOG) Transportation/ Land Use Connections Program (TLC)	-Technical Assistance Program provides grants for consultant assistance to local jurisdictions, ranging from $10,000 to $60,000. Provide assistance for local jurisdictions working to integrate land use and transportation. - The program funds a range of services, including: public involvement facilitation; development and utilization of visualization techniques; streetscape and infill design assistance; assistance with scoping longer term planning studies. - Currently adding funding to pay for 30% design for previously completed study.	MWCOG's Regional Mobility and Accessibility Study found that reduced congestion on the regional transportation network and better mobility could be achieved through locating jobs and housing to each other, promoting development closer to transit stations, and concentrating more jobs and housing in infill locations. The program was designed to implement findings.	Affordable housing not originally part of the program, but many jurisdictions are struggling with issues related to displacement and gentrification near transit. More applications coming in from jurisdictions to address these issues.	FHWA highway planning and research funds (allocated through the Federal Unified Work Program (UWP)) Currently soliciting projects for Transportation Alternatives framed as a complementary component to the TLC program.	Program designed to support development that would contribute to reducing congestion.	WASHCOG's program funds planning in places with and without transit stations. However, the flexibility of the program allows studies that consider current topics such as gentrification risks. LACMTA might consider other types of planning that can be done around transit to positively impact ridership, outside of the zoning changes.

	Example	Program Description	Program Motivation	Affordable Housing/ Equity	LACMTA Applicability		Assessment for LACMTA
					Funding Source	Ridership / VMT /Smart Growth Nexus	
TOD Infrastructure	San Francisco Bay Area, Metropolitan Transportation Commission (MTC), the MPO Transportation for Livable Communities Program **Transitioning to One Bay Area Grant Program currently.	-Grants for local transportation infrastructure projects that encourage pedestrian and bicycle trips and improve transit access; transportation demand management programs, non-transportation infrastructure necessary to support higher intensity development, and land-banking. - Average capital grant size of $1.4 million. - All jurisdictions are eligible as long as they are promoting compact development; transit rich locations prioritized in criteria.	Support local transit-supportive projects with explicit smart growth objectives. With an average capital grant size of $1.4 million, MTC has been able to spread funds throughout the nine counties that comprise the Bay Area while promoting goals of infill development and multi-modal transportation.	No direct funding to affordable housing or equity is provided. Evaluation criteria included bonus points for fulfillment of affordable housing goals, and inclusionary zoning. The future One Bay Area Grant (OBAG) program will be linked more closely to affordable housing goals. OBAG incorporates housing production into the formula for distributing funds, with additional weighting for very low- and low-income housing.	CMAQ is the primary source of funding. Some Federal Transportation Enhancement Act (TEA) funds and State Transportation Development Act (TDA) funds used as well. For some non-transportation infrastructure uses, MTC exchanged federal and local transportation funds. Required local match.	MTC's goals include accommodating growth, providing affordable transportation options, reducing automobile dependency, and protecting open space and farmland.	LACMTA's Call for Projects is used for TOD-related infrastructure, but there is no specific program within the Call that allocates dollars to infrastructure that catalyzes TOD explicitly. Criteria could be modified to include evaluation of affordable housing and compact development.

	Example	Program Description	Program Motivation	Affordable Housing/ Equity	LACMTA Applicability		Assessment for LACMTA
					Funding Source	Ridership / VMT /Smart Growth Nexus	
TOD Infrastructure	Atlanta Regional Commission (ARC), the MPO Livable Centers Initiative (LCI) Transportation Program	-Program provides implementation funds for LCI transportation projects identified in LCI planning studies (see LCI Planning Program below). -Majority of projects are non-vehicular improvements, including sidewalk and crosswalk installations or enhancements, multi-use trails and multi-modal corridor enhancement, roadway operation improvements and the construction of bike lanes. Transit station improvements have also been funded through the program.	Main goal: to encourage local jurisdictions to implement linked land use and development strategies that result in fewer auto trips. The program was designed to encourage local jurisdictions to link transportation improvements to land use planning and to create an ongoing relationship between local communities and the regional agency.	There are no requirements for an equity approach or affordable housing.	STP, to date $203 million for transportation projects. Requires 20% local match.	Reducing vehicle emissions and meeting air quality standards is the main goal of this program, encouraged through coordinated land use/transportation plans.	LACMTA's Call for Projects funds similar improvements, but not linked directly to smart growth or TOD goals. Explicit land use criteria may increase VMT reduction / transit ridership impacts of infrastructure. LACMTA might also consider tying Call for Projects to Planning Grant program.

	Example	Program Description	Program Motivation	Affordable Housing/ Equity	LACMTA Applicability		Assessment for LACMTA
					Funding Source	Ridership / VMT /Smart Growth Nexus	
Other	San Francisco Bay Area, Metropolitan Transportation Commission (MTC)	In addition to the planning and capital grants program, MTC has a suite of policies and programs to support TOD, including: 1) a TOD policy with minimum housing thresholds near transit expansion projects that receive regional funding. 2) FOCUS, a regional development and conservation strategy to incentivize growth in locally-identified Priority Development Areas.	TOD Policy meant to support land use changes along future transit corridors that will support ridership.	No.	Policy, no funding.	Direct ridership nexus. Planning for households along the line to support future ridership.	LACMTA might consider linking land use outcomes to the future investment in transit corridors.

Appendix B. Transit Agency Case Studies: How transit agencies use their land to support TOD

Example	Program Description	Program Motivation	Affordable Housing/Equity	LACMTA Applicability		Assessment for LACMTA
				Funding Source	Ridership / VMT/Smart Growth Nexus	
WMATA (Washington, DC)	WMATA's joint development policies emphasize supporting proposals that adhere to transit-oriented development and smart growth principles. First and foremost among those listed in its policies are reducing auto dependence and increasing transit trips originating on foot or bike. Other principles considered in its evaluation of joint development projects include increasing access, availability of services, and civic space to support reduced auto dependence from residents or workers in the surrounding station area.		WMATA's policy peripherally mentions affordable housing, saying joint development projects should "support other transit agency goals as they may arise, including affordable housing." In practice, WMATA will consider affordable housing projects as desired by the community, but does not go out of its way to seek out affordable housing proposals for all sites. The community drives more of the decision than the agency itself.	N/A	Reducing auto dependence and increasing transit trips first among goals listed in policies.	LACMTA's Joint Development program is very similar to WMATA's.

Example	Program Description	Program Motivation	Affordable Housing/Equity	LACMTA Applicability		Assessment for LACMTA
				Funding Source	Ridership / VMT/Smart Growth Nexus	
King County DOT (Seattle, WA)	King County DOT maintains a policy that all DOT-owned property be considered for affordable housing. However, King County is separate from Sound Transit (which operates the light rail and regional rail systems in the region), and does not have a significant land asset to manage. **Future:** Pending Washington state legislation to allow transit agencies to discount land (fair market value is currently required)	King County as a governing body maintains strong policies supporting social equity, and providing travel opportunities for historically disadvantaged populations is a major goal for the agency's transportation work.	In practice, the DOT has been successful at leveraging its sites to produce affordable housing. DOT works closely with its partner departments such as the Housing Authority to ensure affordable housing is included in areas where it makes sense.	N/A	Increasing access for disadvantaged populations, including low-income people.	King County is one example of a joint development program that has successfully linked policy language to outcomes, in providing affordable housing on public land.

Example	Program Description	Program Motivation	Affordable Housing/Equity	LACMTA Applicability		Assessment for LACMTA
				Funding Source	Ridership / VMT/Smart Growth Nexus	
MARTA (Atlanta, GA)	MARTA's TOD Guidelines functions as an educational document and as a policy and document, illustrating the relationship between TOD and transportation benefits and providing both visionary language and practical recommendations for the mechanisms through which MARTA can work to achieve TOD.	MARTA identifies three key goals for transit-oriented development: ridership; future sustainability and affordability; and revenue generation through fare box recovery and development.	MARTA's policies and guidelines around TOD establish the most specific goals of any transit agency in the nation, calling for 20 percent of housing within TODs to be affordable. However, in practice, MARTA has only completed one joint development project at the Lindbergh station. While this development project originally included a 20 percent affordable component, the development was foreclosed upon, resulting in the loss of its affordability restrictions.	N/A	Supporting ridership, affordability, and revenue generation are major goals for MARTA in their TOD work.	MARTA is an example of the opposite kind--where having a policy has not helped produce affordable housing.

Example	Program Description	Program Motivation	Affordable Housing/Equity	LACMTA Applicability		Assessment for LACMTA
				Funding Source	Ridership / VMT/Smart Growth Nexus	
TriMet (Portland, OR)	TriMet frequently sells property under joint development rather than lease because they do not have the institutional capacity to manage leases over the long term. When a property is sold by TriMet it not only has a restriction to maintain satisfactory continuing control, but also has development controls embedded in the transaction.	Ridership and enhanced station area	Requires affordable housing production in its joint development projects. The advantage of this strategy for achieving affordable housing goals is that the transit agency can influence the location and amount of affordable housing being built at its stations through specific requirements within the joint development solicitation.	N/A		Currently, LACMTA's approach to joint development is very different from TriMet's who tend to sell property rather than maintaining leases.

Example	Program Description	Program Motivation	Affordable Housing/Equity	LACMTA Applicability		Assessment for LACMTA
				Funding Source	Ridership / VMT/Smart Growth Nexus	
Charlotte Area Transit System (CATS) in Charlotte, NC	Completed one joint development project, the Scaleybark station, which also occurred as a sale of land with restrictions. CATS negotiated a deal that included a covenant requiring affordable housing to be placed on the land, in support of a city policy, in addition to maintaining continuing control.	As a transit agency housed within the City of Charlotte, makes it easier to justify supporting particular city policies from other departments related to development and affordability.	Covenant requiring affordable housing to be placed on the land	N/A		
BART (San Francisco Bay Area, CA)	BART has been willing to reduce lease payments for BART-owned land in exchange for a share of the performance of the development in the future.		Respects local affordable housing policies; includes city standards in solicitations; discounts land in exchange for a share of later performance profits; shared parking; subordination of BART in lease structure (on non-federal interest property)	N/A		

Example	Program Description	Program Motivation	Affordable Housing/Equity	LACMTA Applicability		Assessment for LACMTA
				Funding Source	Ridership / VMT/Smart Growth Nexus	
Massachusetts Bay Transportation Authority (MBTA)	Prioritize affordable housing through practice; partnership with local housing agencies for incentives; strategic acquisition of land for joint development;		Prioritize affordable housing through practice;	N/A		
BART, Transit AgencyAccess Study	BART evaluated the current performance of station areas in capturing riders through park-and-ride, bus transfers, walking and biking, and identified locations where joint development or other real estate negotiations, parking pricing, and investments in access infrastructure could increase non-driving access mode shares. BART staff now participates in area planning and TOD efforts.	To expand transit ridership in areas of the system where boardings and alightings are lower.	No explicit affordable housing component was part of the study.	Not a funding program, just a study to identify BART priorities.	Study identified places where access improvements could increase ridership.	LACMTA is already engaged in similar work, through the First/Last Mile Strategic Plan.

Appendix C. Existing Tools in Los Angeles County to Support TOD

	Funding directed specifically to TOD	Funding that may be used to support TOD	Other supportive program or study (not funding related)
Planning	*Station Area Planning, CEQA studies* Local: **LACMTA's TOD Planning Grant Program** is one of the few programs in the region directed specifically at TOD. The program provides funding to support jurisdictions in making regulatory land use changes to support TOD. *Station Area Planning* Federal: **DOT's TOD Planning Grant Program** has not yet been finalized, but may offer funding for station area planning in the future. However, the total program only has $10 million allocated, which will be spread thin in any kind of national application.	*Local // Multi-scale planning for TOD, market feasibility analysis:* **SCAG's Compass Blueprint Program** is a competitive planning grant program available for all jurisdictions in the SCAG region. Planning grants can pay for: Land Use Planning & Design; Market Feasibility Analysis; Outreach & Engagement; Sustainability Services; Transportation & Parking; and Visualizations. *State // Regional, Corridor, Station Area Planning:* **Caltrans** administers **Community-Based Transportation Planning Grants** that are designed to fund coordinated transportation and land use planning that promotes public engagement, livable communities, and a sustainable transportation system. Eligible projects include transit-oriented development plans as well as studies that can lay the groundwork for future implementation, including studies or plans on complete street, smart growth, bike and pedestrian and traffic calming. *State // Regional, Corridor, Station Area Planning:* **Strategic Growth Council Planning Grants**, in particular the Sustainable Communities Planning Grants, are designed to fund climate action plans, infill development plans, sustainable community strategies, and other planning efforts, all specifically aimed at reducing greenhouse gas emissions consistent with state climate goals.	Local: **SCAG's Toolbox Tuesdays** offers training in advanced planning tools for local government planners. Local: **LACMTA's Sustainability Policy** set a vision for the agency: LACMTA will be the leader in maximizing sustainability efforts and its benefits to LA County's people, finances and environment. Once adopted, LACMTA can use the Policy to direct agency resources to support more sustainable outcomes that are in line with LACMTA's goals and mission.

	Funding directed specifically to TOD	Funding that may be used to support TOD	Other supportive program or study (not funding related)
Infrastructure		*Transportation-related infrastructure, including streets, sidewalks, bike lanes, etc.* Local: **LACMTA's Call for Projects** funds many TOD-supportive projects, and the scoring criteria in the Call gives points for projects that are in High Quality Transit Areas and connect with and complement nearby transit projects. However, the Call for Projects is modally neutral. Local: A county-wide **Congestion Mitigation Fee** that will generate dollars for local jurisdictions to use on projects (as outlined under the Call for Projects) is another potential source that LACMTA will bring to their Board in 2013. Depending on how the tool is structured, can support transportation infrastructure (streets, sidewalks, bike lanes, etc.) as well as water, sewer, parks and open space. Local: Local jurisdictions can use **User Fees** and **Value Capture and Financing Tools** to fund TOD-supportive infrastructure. These are not ongoing programs with dedicated sources of funding, but are a set of tools that have been used in different communities to support TOD related infrastructure.	Local: LACMTA is currently considering how the agency could incorporate a **Complete Streets Policy** into their funding mechanisms, in particular the Call for Projects. Almost half of the Call for Projects applications in 2013 was for non-motorized projects, and LACMTA is examining those projects and considering how the agency could support projects integrate all modes of transportation and foster complete streets in the future. Local: LACMTA's **First/Last Mile Strategic Plan** is a system-wide evaluation of first and last mile access to all high quality transit nodes in the County. The analysis will establish what the ideal access connections are for different station types and set the stage for future work identify the kinds of improvements needed. The Plan should be completed in 2013. Local: **LACMTA's Sustainability Policy** (see above)

	Funding directed specifically to TOD	Funding that may be used to support TOD	Other supportive program or study (not funding related)
Development			*Ground leases of LACMTA Land for market-rate and affordable housing TOD.* **LACMTA's Joint Development Program** is one of LACMTA's longest standing roles in supporting TOD. LACMTA works with developers and local jurisdictions to support TOD projects that create transit ridership benefits, have economic development potential, and are responsive to community needs.

Appendix D. Capital Summary by Project Type and Phase of Development

Project Type	Pre-development Phase *		Construction Phase	Permanent Phase	
	Long Term, High LTV, Affordable Acquisition Financing	Unsecured Pre-development Financing	Conventional debt and equity, LIHTC equity	Conventional debt and equity, LIHTC equity	Public Subsidies **
100% Affordable Projects	Capital available (loans)	Existing gap for unsecured pre-development loans (forgivable or not)	Capital available: debt from community lending banks, equity from LITHC investors	Capital available: debt from community lending banks, equity from LITHC investors	Very little available at the local, State and Federal level
weak market vs. strong	no real difference	no real difference	no real difference	no real difference	no real difference
Mixed-income Projects (20% or more affordable)* **	Capital available for most projects (loans) , but gap in long term, high LTV loans for projects with limited number of affordable units	Existing gap for unsecured pre-development loans (forgivable or not), or inexpensive pre-development equity	Available: debt from community lending banks (Tax Exempts Bonds), conventional equity, LIHTC equity. Conservative underwriting on market rents. Gap: inexpensive mezz debt	Available: debt from community lending banks (Tax Exempts Bonds), conventional equity, LIHTC equity. Conservative underwriting on market rents. Gap: inexpensive mezz debt	Very little available at the local, State and Federal level
weak market vs. strong	Lenders are more likely to underwrite in strong markets	Lenders are more likely to underwrite in strong markets	Deals are feasible only in markets with very high market rents (large differential with affordable rents). Lenders are more likely to underwrite in strong markets	Deals are feasible only in markets with very high market rents (large differential with affordable rents). Lenders are more likely to underwrite in strong markets	no real difference

Project Type	Pre-development Phase *		Construction Phase	Permanent Phase	
	Long Term, High LTV, Affordable Acquisition Financing	Unsecured Pre-development Financing	Conventional debt and equity, LIHTC equity	Conventional debt and equity, LIHTC equity	Public Subsidies **
Mixed-income Projects (market with inclusionary at or below 20% of units)	Equity available	Equity available. Gap: inexpensive equity	Conventional debt and equity available	Conventional debt and equity available	NA
weak market vs. strong	Investors more likely to be interested in strong markets	Investors more likely to be interested in strong markets	Lenders and investors more likely to be interested in strong markets	Lenders and investors more likely to be interested in strong markets	NA
Preservation Projects (Section 8 & LITHC)******	Capital available (loans)	Equity available, high LTV acquisition loans available to cover pre-development.	4% LITHC and tax-exempt bonds, FHA 221 (d)(4) and 223(f) programs available	4% LITHC and tax-exempt bonds, FHA 221 (d)(4) and 223(f) programs available	Limited availability (but not always needed)
weak market vs. strong	no real difference (but underwriting more aggressive in strong markets)	no real difference (but underwriting more aggressive in strong markets)	no real difference (but underwriting more aggressive in strong markets)	no real difference (but underwriting more aggressive in strong markets)	no real difference
Operating Properties (non restricted) - bridge to long term restructure	Gap for high LTV (100%) acquisition or mini permanent loans with term longer than 5 years to bridge a	see acquisition	Typical LITHC financing stack is available, but gap on LITHC equity for smaller deals. Limited conventional debt options for non-restricted, small deals	Typical LITHC financing stack is available, but gap on LITHC equity for smaller deals. Limited conventional debt options for non-restricted, small deals	For restricted deals only: very little available at the local, State and Federal

Project Type	Pre-development Phase *		Construction Phase	Permanent Phase	
	Long Term, High LTV, Affordable Acquisition Financing	Unsecured Pre-development Financing	Conventional debt and equity, LIHTC equity	Conventional debt and equity, LIHTC equity	Public Subsidies **
	restructure				level
weak market vs. strong	no real difference		Lenders and investors more likely to be interested in strong markets	Lenders and investors more likely to be interested in strong markets	no real difference
Mixed Use Projects	Capital available, but underwriting conservative. Gap in long term, high LTV loans for projects with small proportion of affordable units	Existing gap for unsecured pre-development loans (forgivable or not), or inexpensive pre-development equity	Available: debt from community lending banks, conventional equity, equity from LITHC investors. Conservative underwriting on commercial rents. Gap: inexpensive mezz debt, operating grants or loans to small businesses	Available: debt from community lending banks, conventional equity, equity from LITHC investors. Conservative underwriting on commercial rents. Gap: inexpensive mezz debt, operating grants or loans to small businesses	Very little available at the local, State and Federal level for housing, no more redevelopment funds for the commercial component
weak market vs. strong	Lenders are more likely to underwrite in strong markets	Lenders are more likely to underwrite in strong markets	Deals are feasible only in markets that can support commercial uses. Lenders are more likely to underwrite in strong markets	Deals are feasible only in markets that can support commercial uses. Lenders are more likely to underwrite in strong markets	no real difference

Project Type	Pre-development Phase *		Construction Phase	Permanent Phase	
	Long Term, High LTV, Affordable Acquisition Financing	Unsecured Pre-development Financing	Conventional debt and equity, LIHTC equity	Conventional debt and equity, LIHTC equity	Public Subsidies **
Community Facilities	Depends on facility type	Gap for unsecured financing	Availability of debt depends on facility type. New market tax credits available but rare	Gap in conventional perm debt. New market tax credits available but rare	
weak market vs. strong	No real difference	No real difference	No real difference	No real difference	

* Pre-development Phase is defined as the development phase ending with the construction loan closing for most transactions in particular 100% affordable deals or other CRA eligible deals. In some cases, the pre-development phase might be further refined as "pre-entitlement" versus "post-entitlement" phases to reflect the added risk until entitlements are secured. For affordable transactions though, the pre-development phase extends to securing the construction and permanent financing, hence the extension of that phase to "construction loan closing".

** Public subsidies are "soft or "residual receipts" loans, i.e. loans with interest payment contingent on sufficient cash flow generated from a property (the typical expectation is that the loan will be extended or forgiven at maturity, typically 55 years in California).

*** Projects with 20% or more of the units affordable qualify for Low-income Housing Tax Credits (LITHC), Tax Exempt bond financing, and construction/permanent loans from the community development divisions of the banks (as such deals are eligible for Community Reinvestment Act credits).

**** Preservation projects are properties assisted under a variety of Federal programs–subsidized mortgages (Section 236 and Section 202), operating subsidies (Section 8), and tax subsidies (LIHTC and tax-exempt bonds)--whose restrictions are in danger of expiring, at which point the properties could convert to market .

Appendix E. Inventory of Existing Tools to Support TOD

Los Angeles County Metropolitan Transportation Agency

Joint Development Program

One of LACMTA's longest standing roles in supporting equitable TOD (outside of providing affordable transit service) is its work on joint development. The program has evolved into a more streamlined and focused program in the years since LACMTA first started doing joint development. Six years ago, the joint development office moved out of the Planning Department to be part of the agency's Real Estate Division, allowing the program to focus on project delivery rather than planning efforts.

LACMTA's established the joint development policy in 1994, updating program guidelines in 2010. The policy guides LACMTA's actions on joint development and today establishes three clear criteria for use in evaluating and selecting projects for agency-owned land: transit ridership benefits; economic development potential; and responsiveness to community needs. There is further a strong emphasis on ensuring projects are integrated with the urban design, land uses, and vision for surrounding land uses. While LACMTA's policy makes reference to comprehensive station area and corridor planning, there is no explicit role for LACMTA established in its policy beyond joint development.

LACMTA considers their role in joint development to be like that of any other land owner. This means especially that working with the community and responding to community desires is an important part of every development project the agency pursues. LACMTA's goals support higher density development on agency land, to support ridership in particular, but to accomplish this, LACMTA staff spend time communicating the benefits of density near transit to communities where joint development projects are planned or proposed.

Affordable Housing in Joint Development

The Policy does include explicit language in support of equitable TOD, calling for "projects with a residential component[that]… provide a range of housing types to meet the need of a diversity of household income, sizes, and ages particularly if such diversity of housing is not currently provided within walking distance of the transit system." However, the Policy does not state specific goals or targets for the inclusion of affordable housing.

Nonetheless, in practice, LACMTA's Joint Development Program has been very successful at producing affordable housing as part of projects built on LACMTA land. LACMTA staff quote that over 25% of units produced through joint development are affordable, and much of this can be contributed to the leadership. This leadership ensures that developers who come to LACMTA in response to RFPs for available land include affordable housing as a part of project proposals. All but one project developed on LACMTA land include some affordable units, and that one was built in conjunction with another project that contributed to in lieu fees.

LACMTA links the core goal of joint development work (supporting ridership) to affordable housing informally, acknowledging that lower income riders tend to be more transit dependent and make up the bulk of LACMTA's ridership. And while LACMTA has not discounted their land or offered other financial support for joint development projects that include affordable housing, the agency has supported affordable projects by capitalizing the rent to enable project developers to use it as part of the loan amount.

Challenges

Today, LACMTA is seeing the rest of the region catching on to the value of owning land near transit, which may present challenges in LACMTA's joint development work in the future, especially in acquiring key sites. The loss of redevelopment dollars and the proactive nature of Los Angeles CRA in particular have not yet impacted the number of projects moving forward on LACMTA land.

There is also hope offered in the form of proposed legislation at the state level that would support some kind of new form of redevelopment, and possibly one that is even friendlier to TOD than the previous version.

TOD Planning Grants

Begun in FY 2012, the TOD Planning Grants Program is relatively new to LA LACMTA, despite the fact that there have been three rounds of funding, with 22 grants, and $15.3 million awarded to jurisdictions within the county. Sixty-one of Los Angeles County's eighty-eight cities and all five of its sub-regional Councils of Governments were eligible for at least one of the rounds, as were several Joint Powers Authorities.

The initial motivation behind the program was to support local jurisdictions in making land use regulatory changes around planned transit stations to support TOD development. LACMTA found that the nexus necessary to spend transportation dollars on local land use planning is when these plans can support ridership on the transit network. With Measure R building out the system at a faster rate than anticipated, and cities lacking the capacity to do the kind of planning necessary to support TOD, LACMTA felt the need was especially urgent to support zoning and ordinance changes on the ground.

The average application in the first three rounds was between $200,000 and 400,000, and projects funded include specific plans, environmental impact reports (EIR), TOD Overlay Zones, design guidelines, initial studies, urban design plans, a TOD guidebook, master plans, streetscape plans, and updates/amendments to general and community plans.

The ability to fund EIRs and CEQA analysis is a crucial part of the program. Because LACMTA's funding is more flexible than SCAG's (the funding for the Planning Grants comes from Measure R), LACMTA can fund CEQA analysis that lead to land use regulatory changes. In fact, while there is no explicit coordination with SCAG's program at this time, LACMTA does seem to be filling an unmet niche in the county.

Typically, planning grants from the Federal Government, SCAG, and Caltrans are conducted at a higher level, and tend to be used for a broader set of planning activities, including visioning and preplanning. LACMTA's grants, on the other hand, are focused on creating outcomes related to land-use regulatory changes. Planning around the Orange Line BRT Corridor offers one example of how these programs complement each other. SCAG funded a TOD corridor study of the Orange Line and, in Round 3 of LACMTA's TOD Planning Grants, the City of Los Angeles submitted an application for more in-depth planning necessary to implement the recommended land use changes at several key stations along the line.

There is interest in establishing a more predictable schedule for the program, with RFPs coming out once a year. Program staff is also evaluating the efficacy of the program in meeting the larger goals of LACMTA funding planning grants, considering "if the goal of the program is to improve/increase ridership, is this program doing it right?"

Call for Projects

The Call for Projects is a competitive process that distributes discretionary capital transportation funds (from federal, state, and local sources) to regionally significant projects. The projects funded through the Call ultimately integrate into LACMTA's Transportation Improvement Plan (TIP). The 2013 Call will distribute $150 million with an addition $49.3 million in de-obligated funds from the last round. Funding for prior Calls has ranged in value from $120 million to $800 million. Restrictions on many of the funding sources limit use and specific modal categories. To be eligible, project applicants must contribute a 20% match; projects with a higher match rate can receive up to 5 points in the scoring system.

Funding

Funding for the Call comes from a variety of local, state and federal sources. Local sources include Proposition C 10% and Proposition C 25% funds and amounts vary among Calls, depending on sales tax revenue. State sources include Transportation Alternatives (TA) funding, depending on the state's budget. Federal funds include Congestion Mitigation and Air Quality Improvement Program (CMAQ) and Surface Transportation Program (STP). The 2013 Call also included Transportation Enhancement funds as allocated before MAP-21.

The Call funds projects in eight modal categories:

- Regional Surface Transportation Improvements (RSTI)
- Goods Movement Improvements
- Signal Synchronization & Bus Speed Improvements
- Transportation Demand Management
- Bicycle Improvements
- Pedestrian Improvements
- Transit Capital
- Transportation Enhancement Activities

These categories have changed over time, due to LACMTA Board interest in funding specific programs (TDM, Bike and Ped Improvements), etc. Funding for each modal category in the Call is informed by LACMTA's Long Range Transportation Plan (LRTP). The 2013 Call is guided by the 2009 LRTP that allocated those dollars as seen in Table 1. Though the modal category names have changed slightly since that document was published, it shows that the Call allocates approximately 22% of the total funds for active transportation modes, and 33% for non-auto modes. RSTI can also support active modes, especially when projects incorporate Complete Streets elements.

Table 1 also shows that these allocations can be augmented with additional dollars as they become available. The 2013 Call for Projects allocated $22.7 million for Bicycle Improvement projects. In fact, according to LACMTA's calculations, almost 50% of the Call is dedicated to non-motorized modes, including 25% for Bike and Pedestrian improvements, and "complete streets" represented 7% of the RSTI modal category.

Table 1. Allocation of Funding to Modal Categories in LACMTA's Call for Projects

Modal Category	Constrained Plan in 2009 LRTP			2013 Call for Projects Modal Share		
	(Millions/ year)		Share	(Millions/ year)		Share
Regional Surface Transportation Improvements	$	29.2	21%	$	29.1	19.4%
Goods Movement Program	$	26.2	19%	$	26.3	17.5%
Transit Capital	$	15.7	11%	$	15.1	10.1%

Transportation System Management	$	33.9	25%	$	33.1	22.1%*
Transportation Enhancements Program	$	2.3	2%	$	2.7	1.8%
Bicycle Program	$	11.7	9%	$	22.7	15.1%
Pedestrian Program	$	11.7	9%	$	11.3	7.5%
Transportation Demand Management	$	6.0	4%	$	5.6	3.7%
Total	$	136.7		$	145.7	

In some modal categories, the Call limits the amount any one project can receive. In particular, projects related to active modes (under Bicycle Improvements and Pedestrian Improvements) can only receive up to $2.5 million. RSTI projects in the 2013 Call have a $6 million per project limit.

Incorporating Sustainability

The Call incorporates sustainability measures through several means. Some of the articulated goals of the Call relate directly to the goals of the region's Sustainable Communities Strategy (SCS), including reducing vehicle miles traveled and greenhouse gas emissions. The Call also incorporates sustainability goals by funding projects that fall under the list of climate change mitigation measures that SCAG developed through the SCS and by requiring project sponsors to consider sustainable design elements in their projects, to attend MTA-hosted training on sustainable design, to develop a Sustainable Design Plan, and to report on implementation of the Sustainable Design Plan. (This requirement was previously included as part of the scoring criteria, but has now been made mandatory for all projects.)

Scoring Criteria

LACMTA scores all projects submitted to the Call based on five broad criteria, as follows:

- Regional Significance & Intermodal Integration (30-35 points)
- Project Need & Benefit to Transportation System (30-35 points)
- Local Match Requirement (5 points)
- Cost Effectiveness (10 points)
- Land Use and Sustainability Policies/Principles (20 points)

The Land Use and Sustainability criteria award points to projects that advance the goals and priorities of the adopted Regional Transportation Plan/Sustainable Communities Strategy (RTP/SCS) or that complement programs or activities that will implement the RTP/SCS while increasing the effectiveness of the project.

Every modal category (excluding Transit Capital) includes 4 points for projects that are located in High Quality Transit Areas, but also asks for justification for projects that are not, and how they will "improve bicycle and pedestrian access to local destinations and/or regional transportation centers."

The Land Use criteria also gives up to 4 points to applicants to describe how their proposed project promotes the land-use planning efforts in their jurisdiction to implement the RTP/SCS and to list the relevant land use planning efforts (including Land use and Zoning Changes, Housing Preservation Programs, Economic Development Initiatives, updated TOD ordinances, and Compass Blueprint projects) and describe how this project promotes their implementation.

How the Call Supports TOD

All of the modal categories in the call could be used to provide TOD supportive infrastructure, but the Pedestrian Improvements, Bicycle Improvements and Transportation Enhancements categories are in particular important categories to support investments in active transportation modes.

Because the Call is designed to serve all jurisdictions in the region equally, TOD is not called out specifically as a priority in the scoring criteria. However, the scoring system does include several metrics that could translate into projects near transit that support TOD being more competitive. In particular, the criteria around the land use scoring and the points given to projects in High Quality Transit Areas could be used to give projects that are TOD-supportive a competitive edge.

It should be noted that the scoring criteria seem to allow for exemptions to many of these criteria, if the project applicants can justify why they do not meet the criteria. The s The scoring related to locating projects in High Quality Transit Areas (HQTAs) in particular could be very powerful in ensuring that the Call prioritizes projects located in transit rich areas, effectively supporting the kind of infrastructure needed in transit-oriented districts. Because the 2013 Call is the first year in which HQTAs were including in the scoring criteria, an evaluation of the projects funded and their relationship to these geographies will reveal whether these scoring criteria are effective in directing funds towards transit-rich locations in Los Angeles County.

In addition, every project submitted to the Call must complete the Impact Checklist, which documents how projects consider the needs of pedestrians and bicyclists in their planning and/or designing. For projects that do not accommodate bicyclists and pedestrians, the project applicants must document why not. LACMTA developed the Checklist in response to recent federal and state policies that call for the integration of pedestrian and bicycle plans into transportation plans and project development. In theory, the Checklist could disqualify projects from receiving funding through the Call that do not appropriately integrate pedestrian and bicycling.

Other components of the scoring criteria support connections to the transit network specifically, including the Bicycling Improvements category and its Bikes-to-Transit subcategory. The TDM Category awards up to 5 points for projects that are “part of a Transit Oriented Corridor or District” or encourage transit use in a HQTA. Some elements of transit-oriented development projects are eligible for the Transit Capital modal category if they meet the project evaluation criteria, including park-and-ride facilities and improvements to regionally significant transit stops.

Other LACMTA Programs, Plans, or Initiatives that Relate to TOD

The following programs and policies exemplify LACMTA’s evolution, looking beyond the station and the agency-owned land to consider the larger station area and how LACMTA can provide tools and knowledge to support TOD across the County.

Complete Streets Policy

Presently, LACMTA is considering how to incorporate a Complete Streets policy into their funding mechanisms, in particular the Call for Projects. Almost half of the Call for Projects applications in 2013 were for walking and biking projects,,[26] and LACMTA is examining those projects and considering how the agency could support projects integrate all modes of transportation and foster complete streets in the future. The Board directed staff to examine transit corridor projects currently in design or under construction and how LACMTA is working with cities to incorporate robust bicycle and pedestrian improvements to facilitate first mile / last mile transit access, to look at the project initiation checklist for major capital projects and analyze best practices to include any additional active transportation elements and look at reductions in station area parking to fund active transportation linkages and infrastructure around MTA stations,, among other tasks.

Sustainability Policy

LACMTA's Sustainability Policy sets a vision for the agency that LACMTA will be the leader in maximizing sustainability efforts and its benefits to LA County's people, finances and environment. The Policy Framework was completed in 2012 and is gradually being integrated into the rest of LACMTA's programs.. Once adopted, LACMTA can use it to direct agency funds to support more sustainable outcomes that are in line with LACMTA's goals and mission.

First/Last Mile Strategic Plan

One piece of work that came out of the creation of the Sustainability Policy is a system-wide evaluation of first/last mile access to all high quality transit nodes (stations or stops with service that runs at 15 minute headways or better during peak hours..)The study is funded through a combination of LACMTA and SCAG dollars, and the analysis will establish what the ideal access connections are for different station types (the place types developed through the sustainability policy..) For example, the Plan might identify ideal access for stations in Cluster D (the highest density station areas) as active transportation with no parking, while a more suburban place type will have a different ideal connectivity.

Establishing the ideal access around each station will allow LACMTA to quantitatively identify the kinds of improvements needed around stations and start to estimate the amount of investment needed to put those capital improvements in place. The Plan may establish modal access targets for different types of stations as way of prioritizing investments across the county, or may link targets to ridership goals.

Urban Greening Grant

A State of California Strategic Growth Council grant will support LACMTA in considering how add in considering how to add "green" elements to transit park-and-rides and station areas, including how spaces can be activated through community activities. The final product will include a programming toolkit to help LACMTA bring activities like Farmers Markets to parking lots.

Linkages Study

LACMTA is working on a Master Plan for the land they own at Union Station, and received a Caltrans grant in partnership with SCAG to complement that work with a study of transportation access to Union Station. The Linkages Study will analyze the last mile connections (especially bicycle and pedestrian access) around Union Station. This work will be completed in close partnership with the City of LA, and the goal of the study is to create prioritized

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[26] More details on all of these infrastructure tools can be found on SCAG's "CA Smart Growth Infrastructure Funding and Financing" website, at *http://iff.scag.ca.gov/Pages/Home.aspx*. Content on the site was provided by Strategic Economics and the design is by The Planning Center | DC&E.

list of public improvements needed to support better access and connections to Union Station from the surrounding communities.

Climate Change Adaptation Strategy for LA County

LACMTA applied for a Sustainable Growth Council grant with LARC (the Los Angeles Regional Collaborative for Climate Action and Sustainability) to engage on a Climate Change Adaptation Strategy for LA County. LACMTA's piece of the grant will be to create a Model TOD ordinance for LA County and to survey the best practices in TOD to create a matrix linking tools to support TOD to the different neighborhood types in LA County.

Potential Future Funding for TOD

Congestion Mitigation Fee

LACMTA has been pursuing the idea of a County-wide congestion mitigation fee for many years, and will be bringing a proposal to the Board in 2013. This would create a County-wide fee on new development that would go directly to cities to fund projects (as articulated in the Call for Projects.) Local jurisdictions could use this revenue to fund projects directly within their jurisdictions or as matching funds in applying to the Call for Projects.

Cap and Trade

California is working to implement a Cap and Trade program that will reduce GHG emissions while generating revenue for the State. AB1532 established the program and requires that the revenue from allowance auctions be spent for environmental purposes, with an emphasis on improving air quality. A second bill, SB 535, requires that at least 25 percent of the revenue be spent on programs that benefit disadvantaged communities, which tend to suffer disproportionately from air pollution.

While the State has not yet come out with an investment plan for how these dollars will be allocated, and how disadvantaged communities will be identified, this may be a source of potential funding to support TOD, especially in lower income neighborhoods. LACMTA's Board has supported directing the revenue from Cap and Trade to go to transportation purposes, which could be construed to go to many of the existing programs LACMTA runs or to new complimentary programs.

Regional Tools to Support TOD

Southern California Association of Governments (SCAG) Compass Blueprint Program

The Compass Blueprint Program is a competitive planning grant program available for all jurisdictions in the SCAG region. Planning grants can pay for: Land Use Planning & Design; Market Feasibility Analysis; Outreach & Engagement; Sustainability Services; Transportation & Parking; and Visualizations. Because of the funding streams available to SCAG, the program does not fund EIRs, or architecture and engineering projects. SCAG recognizes that these are key pieces to implementation of TOD and other planning work, but is limited by the restrictions on their funding sources.

The program has evolved since it began in 2005. In FY2005-2006 the average project cost around $10,000-$20,000, while in FY2012-2013 the average project cost was $175,000. The total number of projects funded has also been increasing; there were 7 funded in 05-06 and 27 in 2012-13.SCAG is now seeing applications for projects that are follow-ups or implementation pieces of earlier planning projects.

Today, the program is evolving further into a sustainability program, which will support projects in three categories: 1) the Compass Blueprint Program; 2) Green Regions (sustainability projects, GHG reduction); and 3) Active Transportation projects. Neither Compass Blueprint nor the new Sustainability Program has a dedicated source of funding. Typically, the program has been funded from consolidated planning grant funds from Caltrans and is further supplemented with other grants SCAG acquires. Most recently, these funds include a Strategic Growth Council grant from the California Air Resources Board.

In addition to the planning grant dollars, SCAG hires and pays the consultants (managing the administrative side of the grants) while the city manages the project. This is one way that SCAG sees itself as offering technical assistance to cities that would otherwise be too burdened with administrative costs. In order to remain inclusive, the program does not require a local match.

Other SCAG programs that support TOD

The Compass Blueprint process is one of the main ones that SCAG operates that supports TOD. However, SCAG also runs *Toolbox Tuesdays*, which offer training in advanced planning tools for local government planners. *CA LOTS* is another tool, and is an interactive web-portal that provides a platform for users to query and spatially map contextual indicators. CA LOTS is useful in assessing the potential for infill development and analyzing parcel data.

Local Jurisdiction Mechanisms to Support TOD

Planning

Cities' planning tools, and in particular their zoning and up-zoning requirements, can be a powerful mechanism to support equitable TOD.

Example from the City of Los Angeles

The City of Los Angeles (City) recently approved the Cornfield Arroyo Seco Specific Plan (CASP). A key feature of the CASP is the provision of Bonus Floor Area and/or Transfer Floor Area for projects that provide affordable housing units. Specifically, the CASP sets the base FAR at 1.5:1, and allows projects to be developed at FARs of up to 6:1 if a projects fulfills defined affordable housing requirements.

Keyser Marston Associates, Inc. (KMA) assisted the California Community Foundation in evaluating the financial feasibility of allowing increased FAR in return for the inclusion of affordable housing units. The KMA analysis estimated the land value supported by the base zoning at 1:5:1, and then prepared prototype pro forma analyses to estimate the value enhancement created by increasing the allowable FAR. The KMA analysis reached the following conclusions:

- The land value supported at the 1:5:1 comports with the land prices currently exhibited in the area
- Under current financial and market conditions, increasing the FAR enhances the supportable land value until reaching a FAR in the range of 3:1; and
- Due to the change in building and parking types required to reach higher FARs, the analysis concluded that increasing the FAR above that threshold does not currently enhance the supportable land value.

Based on the results of the KMA financial analysis, the City established an affordable housing obligation schedule for developers seeking FAR increases. The financial analysis also produced a Transfer of Development Rights (TDR) Fee to be paid by developers that wished to obtain FAR increases, but that do not wish to provide affordable housing units. The TDR fee is charged per square foot of additional residential building area being requested.

Example from the City of Santa Monica

The City of Santa Monica (City) recently updated the Land Use and Circulation Element (LUCE) of the General Plan. A fundamental feature of the updated LUCE is that developers may request additional height and FAR (Tiers 2 and 3) with the provision of community benefits.

The foundation of the LUCE framework is the identification of baseline maximum building heights and FAR for each land use designation. Projects providing community benefits consistent with the community's broader social and environmental goals can request height and FAR above the baseline in three tiers, subject to discretionary review: the baseline tier (Tier 1 or Base Case) and two discretionary tiers (Tiers 2 and 3). The Tiers can be described as follows:

Tier	Height Limit	Community Benefits Required
1	32 Feet / 2 stories	No
1	35 Feet / 3 stories	Construct Affordable Units
2	45 Feet / 4 stories	Yes
3	Above 45 Feet	Yes

Tier 1 projects that comply with the Affordable Housing Production Program by constructing affordable units are eligible to receive a three-foot height bonus, which brings the height limit to 35 feet, allowing for the construction of a three-story building. Any project requesting Tier 2 or 3 development standards are required to comply with the City's Affordable Housing Production Program. Compliance with the Affordable Housing Production Program is not counted as a community benefit.

To assist the City in quantifying the economic benefit created by providing additional height to development projects, Keyser Marston Associates, Inc. (KMA) prepared pro forma analyses for prototypes that allowed KMA to evaluate the effect of location within Santa Monica, site size, site configuration, and adjacencies. An important underlying assumption is that a developer would only request a height and FAR increase if it is anticipated to enhance the project economics.

The results of the pro forma analyses showed significant value enhancement for Tier 2 and Tier 3 projects for each prototype site. In addition, Tier 1 projects showed equivalent or greater land values as compared to the existing zoning. The results of the KMA prototype analysis show that the community benefit tier structure of the LUCE provides a significant land value enhancement. The analysis suggests that financial feasibility will be achieved while also allowing community benefits to be incorporated into each project.

Infrastructure

Local jurisdictions also have access to a variety of mechanisms and tools that they can create to fund TOD-infrastructure. These are not ongoing programs with dedicated sources of funding, but are a set of tools that local jurisdictions can implement individually. Some of these tools are in place some jurisdictions today.[27]

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[27] More details on all of these infrastructure tools can be found on SCAG's "CA Smart Growth Infrastructure Funding and Financing" website, at http://iff.scag.ca.gov/Pages/Home.aspx. Content on the site was provided by Strategic Economics and the design is by The Planning Center | DC&E.

User Fees

User fees and rates include the fees charged for the use of public infrastructure or goods (e.g., toll road or bridge, water or wastewater system). Such fees and rates are typically set to cover a system's operating and capital expenses each year, which can include debt service for improvements to the system. The revenues generated from user fees help offset operations and maintenance costs. It is possible sometimes to use some portion of user fee or rate revenue toward financing the costs of new infrastructure, though doing so may require raising rates.

Value Capture

Value capture is not one but a bundle of tools that raises revenue by capturing the value generated by public infrastructure improvements and/or a strong or strengthening real estate market. Value capture can entail the creation of a new assessment, tax, or fee (such as a special localized tax or development impact fee), the diversion of new revenues generated by an existing tax (as in tax increment financing), or a revenue-sharing agreement that allows a government agency to share in some of the revenues generated by developing publicly owned land (known as joint development). Value capture mechanisms available in California include:

- Redevelopment Tax Increment Financing (not available today, but new mechanisms are being considered in the State Legislature)
- Development Impact Fees
- Infrastructure Finance District
- Special Assessment District
- Mello-Roos Community Facilities District
- Development Agreements
- Joint Development
- Private Transaction/Transfer Fee

Financing Tools

There are two basic ways to approach paying for infrastructure: "pay-as-you-go" and debt financing. In a pay-as-you-go approach, improvements are made only when sufficient revenue is collected to cover the entire cost. In a debt financing approach, the improvement is paid for immediately, typically by borrowing against future revenues – in other words, issuing debt that is paid back over time.

Local governments typically borrow money by issuing bonds, which are promises to pay back investors over a defined period of time at a defined interest rate. Public entities can typically access lower interest rates by issuing bonds rather than by borrowing money from a private lender because most publicly issued bonds are exempt from state and federal taxes. Local governments can issue debt for projects that do not themselves generate revenue (typically in the form of general obligation bonds), but most types of debt must be secured by a dedicated source of revenue. Specific kinds of financing tools available in California include:

- General Obligation Bonds
- Private Activity Bonds
- Revenue Bonds
- Lease Revenue Bonds

- Grant Anticipation Revenue Vehicle Bonds

State Programs to Support TOD

Caltrans Planning Community-Based Transportation Planning (CBTP) and Environmental Justice (EJ) Grants

CBTP grants are designed to fund coordinated transportation and land use planning that promotes public engagement, livable communities, and a sustainable transportation system, while EJ grants focus more on supporting inclusive public participation in land-use and transportation planning. Caltrans administers its planning grant program once every two years; in the FY 2013-2014 round, the State Highway Account funded $3 million available for CBTP grants of up to $300,000 and $3 million for EJ grants of up to $250,000. Applicants must provide at least a 10% match of the grant amount requested.

Transit-oriented development plans are one of several types of eligible projects for Caltrans Planning Grants. Some examples of projects that the program has funded include a TOD Overlay District in the City of San Bernardino and Transit-Oriented Development Studies in the Laguna Niguel Gateway. Grants also fund a number of different studies that can lay the groundwork for future implementation, including studies or plans on complete street, smart growth, bike and pedestrian and traffic calming.

The final products of CBTP and EJ grants are expected to help leverage funds from other program sources that will forward future project activities. Completed EJ and CBTP products often contribute to positive local planning practice by influencing and integrating final products into the local and regional plans.

The program scores projects based on how they address State Transportation Planning Goals, including: Improve Mobility and Accessibility; Preserve the Transportation System; Support the Economy; Enhance Public Safety and Security; Reflect Community Values; and Enhance the Environment. Projects are also scored based on how they complement local Sustainable Community Strategy efforts. The Program also heavily emphasizes public engagement and studies that will lead to implementation.

These grant programs are not meant to support general plans or the creation of RTPs, and they also do not fund CEQA analyses.

Strategic Growth Council Planning Grants

The Strategic Growth Council administers both the Sustainable Communities Planning Grants and the Urban Greening Grants. The former funds climate action plans, infill development plans, sustainable community strategies, and other planning efforts, all specifically aimed at reducing greenhouse gas emissions consistent with state climate goals. The Urban Greening Grants establish or enhance community green areas such as urban forests, open spaces, wetlands, and community gardens. In 2012, the Strategic Growth Council funded $24.6 million in Sustainable Communities Planning Grants and $20.7 million in Urban Greening Grants.

Federal Programs to Support TOD

Federal grants for planning for TOD are very limited. MAP-21 allocated $10 million / year for TOD Planning Pilot Program, which may be a source for TOD Planning for jurisdictions across the County. FTA has yet to prepare a Notice of Funding Availability that would outline the guidelines for applicants interested in the program.

In the past, HUD and FTA have managed competitive grant programs, including TIGER planning and infrastructure grants and Community Challenge Grants. However, these programs have not been allocated funding in FY 2012/2013 and the outlook for future funding of these programs in the future is uncertain.

Appendix F. Resource Summary Scan of Pooled Funds

The following scan of existing financial tools focuses specific pooled funds that have been created to extend the financing options available to developers of affordable housing by offering more flexible and aggressive terms than Community Development Financial Institutions (CDFIs) and banks typically provide. The scan assesses how well these financial products meet the needs for development near transit, particularly in the Los Angeles region.

There are currently three funds that serve the Los Angeles region, the City of Los Angeles New Generation Fund (NGF), the Los Angeles County Housing Innovation Fund (LACHIF) and the Golden State Acquisition Fund (GSAF). These funds were not created with the goal of supporting equitable outcomes in transit-oriented-districts (TOD) projects, but with the intent to provide financial support to a variety of affordable housing development.

This report also looks at two funds that cannot be used for projects in Los Angeles but provide valuable lessons on funding equitable TOD development. These two funds, the Transit Oriented Affordable Housing Fund (TOAH Fund) in the Bay Area and the Denver Transit-Oriented-Development Fund, were created specifically for Transit-Oriented-Development projects. Of the five funds reviewed, only one, the TOAH Fund, offers a comprehensive menu of financial products. The other four funds are limited to acquisition and/or pre-development products.

The scan shares some preliminary lessons learned based on how successful the funds are and how well they provide the financial tools needed to support equitable TOD projects:

- As transportation service extends beyond municipal boundaries, so too should financial products that best leverage that investment. While complex to create, financial products that work across municipalities better maximize equitable TOD opportunities by recognizing that increased access created across jurisdictional boundaries and expanding the opportunities for investment by the fund. Funds initially created for use within one city or county have realized their limitations and have subsequently been repositioned to serve a regional level.
- Securing permanent take-out financing is always a challenge, especially long-term soft debt for affordable projects and low-cost conventional debt for mixed-income or mixed-use projects. This scan of capital resources looks into this in more detail.
- Given the above points, typically large, complex, urban infill TOD projects require:
    - longer terms (5 to 7 years) to secure entitlements and take out financing;
    - access to financing without any commitments on take-out or entitlements in place;
    - high Loan to Value acquisition financing to limit the carrying costs for the developers;
    - unsecured pre-development loans to cover carrying and holding costs, including interest;
    - financing for all phases of development (acquisition, construction and permanent) that can support a variety of project profiles (100% affordable, mixed-income, mixed use); and
    - Low-cost financing during all phases of development.

Providing financial products that have a number of the characteristics listed above allows developers to assemble the land, acquire larger occupied properties, and secure lengthy entitlements and take-out financing, limiting their carrying costs and exposure, particularly when acquiring land that has no income stream. These are the types of products that can encourage equitable TOD.

This review of existing funds, along with a more complete scan of the capital resources available for different project types during each phase of development, as well as interviews with developers, will be the basis for the identification of any gaps that arise in the existing financing tools. As such, it is a first step that will inform suggestions regarding how to best act to encourage equitable development in TOD.

New Generation Fund

Overview

Launched in 2008, the New Generation Fund (NGF) is a multi-million dollar acquisition and pre-development fund for the preservation and production of affordable housing in the City of Los Angeles. NGF was established through collaboration between the City of Los Angeles, Enterprise Community Partners, foundations, and major financial institutions. NGF is structured with the CDFIS (originating lender) taking the first loss position and funding 2% of the loan amount, which equates to their fee. The rest of the capital comes from senior lenders (banks) which are credit enhanced down to 60% Loan to Value (LTV) by public (LAHD) and PRI capital (Enterprise).

NGF was launched at a time when competition for available land for affordable housing was high and, due to the complicated, multilayered financing needed for affordable housing, there were very few lenders willing to take pre-development risk on larger acquisitions. Outside of redevelopment project areas, acquisition capital for large scale affordable housing was limited. There was a demand for more flexible capital with higher loan to values and quick closing timeframes. NGF was renewed by its stakeholders in June 2010 for a three year term and the third renewal, to run to 2015, is on track to close the first quarter of 2013.

Products and Terms

Acquisition and Pre-development

Loans up to $15 Million available. The maximum project loan term is two years, plus up to two 12-month extensions at the Fund's discretion. The LTV for non-profit borrowers is up to 120%, for-profit borrowers is up to 95%. Limited recourse down to 25% for non-profit borrowers and 100% recourse to for-profit borrowers. All properties that serve as collateral for project loans must be "as of right" zoned. Exceptions may be made for properties requiring rezoning.

Eligibility Requirements

Acquisition of land or occupied properties for multifamily rental housing, up to 10% can be commercial, higher percentage allowed for community facilities or non-profit space. Minimum of 75% of all units must serve people earning 80% or less of area median income (AMI). Must be located in the City of Los Angeles.

Use of the Fund

During the period of March 2008-June 2012, NGF made six loans, including two for projects near transit, totaling $38 million in capital:

- *5555 Hollywood*. In 2011, Meta Housing Corporation received $7,837,500 million to acquire a vacant lot in Los Angeles near Hollywood Station on the Red Line. The TOD will provide 120 apartments for low-income senior citizens at 30% to 50% of AMI and 6,000 square feet of neighborhood oriented retail space. The loan was not extended and is now closed.
- *Gateway Apartments.* In 2008, SRO Housing Corporation received $5.85 million with a 24-month loan term for acquisition and pre-development financing of a vacant lot located in the Skid Row neighborhood of

downtown Los Angeles near the purple and red lines, ½ a mile from the Pershing Square Station. The proposed development, Gateway Apartments, will provide 120 efficiency studio apartments targeting formerly homeless persons earning 30% to 60% of median income. Now closed, NGF extended the loan for an additional year.

Lessons Learned

Applicable to other efforts to create a TOD development financing tool

NGF has loaned 46% of available capital. Although the partners started on the path to create NGF at a time when capital was in high demand, by the time all the resources were pooled together it was the beginning of the economic downturn. Additionally, capital was available from other sources – in particular, the Community Redevelopment Agency of The City of Los Angeles (CRA/LA); many of the developers that had access to CRA/LA funds did not need funding from NGF, further contributing to its underutilization. From 2008-2011 with more advantageous terms CRA/LA loaned $98 million to 35 housing projects, while NGF loaned $37 Million to five projects during the same period.

As previously structured, the NGF could make no loans with terms longer than three years, including a six- to twelve- month extension from the standard two-year initial term. This constraint posed no barrier to an intermediate term (2-3 years) TOD loan, but it effectively precluded NGF from participating in longer term acquisition and development transactions for TOD properties. As structured now, NGF has loan terms up to two years, with potential extension for another two years. NGF's ability to support mixed-use projects is somewhat limited, but it can allow higher amount of commercial use if those projects utilize external funding sources.

Repositioning

In May 2012, the LAHD requested that NGF cease originating new loans until it could evaluate the affordable housing pipeline and develop a repositioning strategy for NGF to respond to new circumstances. The renewal and repositioning of NGF will allow for continuation of traditional activities under the current structure; however, NGF's size will be reduced to reflect the city's pipeline projections and limited available take-out sources. At initiation, NGF was $100 million; the City resized it to $52 million to align with take-out sources and to accommodate a future expansion of NGF for TOD. The City and the Fund Manager intentionally did not expand NGF to its full capacity, considering that a portion of future additional credit enhancement should support expansion of NGF for TOD. The funds maximum lending capacity is currently up to $71.6 million based on the current credit enhancement of roughly $10.7 million.

Senior lenders that have participated in the NGF have become comfortable with the underwriting and asset management expertise of the sponsors and with the role of a fund manager responsive to both public officials and owner/manager entities, a relationship that makes the banks currently investing in NGF more amenable to expanding the Fund's terms and geographic target to support TOD. As a part of the renewal process, the Fund Manager and the City shared their intent with the senior lenders to return for additional investment for TOD, with funds available for longer terms for developments concentrated near LACMTA Stations and rapid bus lines.

NGF loan requests will work in tandem with the new LAHD decision process, which varies for 4% and 9% LIHTC projects. With an NGF loan approval, a deal is considered a part of the LAHD's managed pipeline. Managed Pipeline projects are deemed approved/supported by LAHD and will receive city funding (if required) at a time predetermined by LAHD.

Los Angeles County Housing Innovation Fund

Overview

The Los Angeles County Housing Innovation Fund (LACHIF) is a $60 million revolving loan fund established in 2010 to assist developers in the production of affordable housing for low-income households in Los Angeles County. LACHIF leverages $20 million in funds from the Community Development Commission of Los Angeles County (funds came from the County's 2006 Homeless Prevention Initiative) with an additional $40 million in private capital. The Commission funds actact as a 33% top-loss on each transaction. LACHIF is structured with capital from the County of Los Angeles funding 33% of each loan in a first loss position. The rest of the capital comes from a mix of banks and CDFIs with different layers of risk. If the Fund is restructured, it will probably keep the county funds in first position, with the CDFIs raising the rest of the capital as needed. LACHIF provides pre-development and acquisition financing to support the creation of affordable housing, including supportive housing projects. LACHIF has set a target of 40% of the units created for households at or below 35% AMI. The Fund manager oversees the approval process with an ad hoc loan committee comprised of the Fund's participants. The origination period of LACHIF ended in January 2013. The Commission and the participating CDFIs are working on a Fund restructure to better target developers' needs.

Products and Terms

Acquisition and Pre-development

LACHIF provides loans up to $5,000,000, including a maximum of $750,000 for pre-development expenses. The maximum loan term is three years, including extensions. The interest rate on project loans ranges from 6.25% to 6.75%, depending on the overall development affordability. The LTV is 100% for non-profit borrowers and 95% for for-profit borrowers. LACHIF is flexible in terms of interest reserve requirements.

Eligibility Requirements

Eligible projects include development of multifamily rental properties with all apartments restricted to households at 60% of AMI.

Eligible borrowers include non-profit and for-profit corporations; municipal agencies, cities, and redevelopment agencies in Los Angeles County; joint ventures comprised of the aforementioned entities; and Limited Partnerships or Limited Liability Companies if the sponsor is one of the above entities with a track record of developing affordable rental housing.

Project must be located in Los Angeles County, including within incorporated cities.

Use of the Fund

LACHIF was created with a goal to increase the availability of affordable housing in Los Angeles County without an express intent to finance the development of projects in TOD. This is noticeable among the five projects that have been funded to date, all 100% affordable but none TOD. The following list briefly describes each project:

- *Hudson Oaks*. In January 2010, Abode Communities received a one-year, $3.7 million acquisition loan from LACHIF, combined with a $2.6 million acquisition and pre-development loan from the City of Pasadena, to rehabilitate a vacant, fire-damaged building in Pasadena, CA. Adobe Communities completed construction on the 45 unit senior housing development in April 2012.
- *San Fernando Community Housing*. Aszkenazy Development received a one-year, $650,000 pre-development loan in April 2011 for a 97 unit multifamily housing project for low-income families in the city of San

Fernando, receiving entitlement approvals in March 2012 and scheduled to begin construction in April 2013.

- *Broadway Apartments.* In April 2011, National Community Renaissance of California received an 18-month, $823,000 acquisition loan to build a 24-unit affordable, multi-family housing, Section 8 rental for formerly homeless families in Pasadena, CA. Construction was scheduled for late 2012, but has been delayed due to difficulty in receiving an allocation of tax credits and securing construction financing.
- *Kernwood Terrace Apartments.* In June 2011, Kernwood Terrace Apartments LTD received a $3.4 million, two-year loan with possibility of a one-year extension to preserve a 51-unit affordable senior housing complex in Los Angeles. The project is expected to apply for the extension, as the developer is still securing the take out financing.
- *Heritage Square.* In November 2011, Bridge Housing received a two-year, $1 million acquisition and pre-development loan for new construction of affordable housing for very low-income seniors in Pasadena. This project is still in the pre-development phase, which includes applying for 9% LIHTC in March 2013 and submitting building permits later in the year. Construction is scheduled to begin in early 2014.

Lessons Learned

Applicable to other efforts to create a TOD development financing tool

- In its current configuration, LACHIF does not target TOD development projects nor address their typical needs. LACHIF was structured to address the acquisition financing needs of typical 100% affordable, mid-size new construction projects, with 9% LIHTC and local soft financing take out. As such, it offers larger loans and higher LTV than CDFIs can offer with their revolving loan funds, at an affordable price, and can include a pre-development piece. However, the maximum loan size ($5MM) and term (3 years), and the exclusion of mixed-income and mixed use projects limit the usefulness of LACHIF for TOD projects.

- For those TOD development projects that are larger, more expensive and more complex than “typical” new construction, 100% affordable projects, it takes a long time for developers to complete the entitlement process. Currently, LACHIF requires developers to have obtained a California Environmental Quality Act (CEQA) clearance (or be ready to obtain in a very short window). This, which gets done along with entitlements, can take anywhere from one to six years. Thus, the financing from LACHIF would not be available at the right time for a developer who is undertaking a TOD project with a long development timeline, but needs to close on the land immediately.

- There is an additional requirement that funds from LACHIF cannot be used for projects within 500 feet of the freeway. In Los Angeles, many transit stations are close to the freeway, which makes it difficult for this Fund to be used for certain transit oriented developments.

- “Stand alone” unsecured pre-development loans are needed to support projects that have secured long term escrows or acquisition financing from a public entity. LACHIF allows pre-development loans only for projects that also use acquisition financing.

- A successful Fund needs to address many project types and offer a variety of flexible products to better meet the needs of developers in a changing environment.

LACHIF has been underutilized. It closed in the midst of an economic meltdown that has strongly impacted the affordable housing industry. LIHTC equity and conventional debt became scarce and deals were stalled in 2009 and the first part of 2010. The environment improved shortly but then worsened again in 2011, as the Governor of California shared his plan to dismantle redevelopment agencies (RDAs) and succeeded in doing so in 2012, eliminating one of the key sources of financing for affordable housing. Developer interest in raw land for 100% affordable deals is greatly impacted by the lack of soft take out financing; currently, developers are pursuing preservation projects and other occupied properties. In its current configuration, LACHIF is best suited for new construction projects and the acquisition of land, considering the loan size limit and the Commission's expectation that the County's City of Industry Fund, its main source of funding for affordable housing (which does not fund preservation deals) will serve as take out for Fund loans.

Restructuring

In order to address these challenges and leverage the County funds to better address the current needs of affordable housing developers, there are efforts underway to restructure LACHIF. Even though these efforts are in very preliminary stages, it is possible they will include longer terms (up to 5 or 6 years), larger loan amounts for a variety of project types, in particular preservation. While it is not expected that development in TOD will be a stated priority if the County decides to go ahead with the restructure, the new terms would make LACHIF a better tool for TOD development projects. However, it should be noted that the CEQA and 500-feet setback requirements will likely remain, which will de facto reduce the number of development projects in TOD that could use LACHIF.

It should be noted that a potential restructure would be done in a very different context than when LACHIF was originally created. Industry's redevelopment agency, like all redevelopment agencies in the state, has been dissolved. Again, funding from the City of Industry's redevelopment agency was one of the main sources of funds for the County's support to affordable housing. Several efforts, including lawsuits, are underway to prevent the State of California from taking the City of Industry funds. Los Angeles County's Board of Supervisors is also considering a proposal to earmark funds formerly targeted through CRA for housing to be used for housing in the coming years. The future of the Industry funds won't be decided for a while. A potential restructure of LACHIF would allow for longer loan terms, acknowledging the fact that most projects will need time to assemble the long term subsidies they need as take out, from Industry or elsewhere. Most industry experts assume new subsidies will be implemented at the State and, or local level in the coming year (see Summary of Available Capital).

Again, the restructure is under consideration. The Commission's staff is working on it and contemplating bringing a proposal to the Board of Supervisors in the next few months.

Golden State Acquisition Fund

Overview

As a result of an innovative partnership between the State of California and Community Development Financial Institutions (CDFIs), the Golden State Acquisition Fund (GSAF) was established in December 2012 to respond to affordable housing developers' need to quickly access flexible financing to purchase land or occupied properties as they become available. GSAF leverages $23 million in seed financing from the State of California's Department of Housing and Community Development with private capital to create a $93MM revolving pool of funds. GSAF is a unique financing program, with a lean model that streamlines the lending process through the CDFIs: each participating CDFI will originate the loans through their internal approval process and raise the capital as needed.

The $23 million will serve as a 25% top loss for each GSAF loan, enabling the seven originating CDFI lenders to provide acquisition financing with favorable pricing and attractive terms, such as higher loan-to-value and longer loan terms. The program supports both the construction and preservation of affordable housing throughout the State of California. GSAF aims to distribute 45% of total funds to projects in Southern California, 30% to projects in Northern California, 10% to projects in rural areas, and another 15% to foreclosed properties. Although the GSAF does not specifically target development in TOD, GSAF can offer long terms, high LTV and a large maximum loan amount, all of which are often needed for large urban infill projects that characterize typical TOD developments.

Products and Terms

Acquisition Only

The maximum loan amount is $13,950,000 and the maximum loan term is five years. The maximum LTV for non-profit developers is 100% and 95% for for-profit developers. Interest reserve requirements are flexible. The program encourages CDFIs to provide financing at a lower cost than they would typically offer with their funds.

Eligibility Requirements

Eligible Projects

- Acquisition of land and occupied properties
- Rental Housing: 100% of units restricted to 60% or below AMI
- Homeownership: restricted to 80% AMI
- Mixed-Use: no less than 75% of total square feet to be acquired will be developed as affordable housing (at or below 60% AMI)
- Mixed-Income: no less than 75% of number of proposed residential units will be developed as affordable housing (at or below 60% AMI).

Eligible Borrowers

Eligible borrowers include non-profit developers, for-profit developers, cities, counties, and other public agencies within California, and joint ventures comprised of such entities, with a track record of developing affordable housing.

Geographic Requirements

The state of California.

Use of the Fund

As GSAF was just created, no loans have been made through GSAF. While it is anticipated that the GSAF will provide a good acquisition product for both the new construction and preservation of affordable housing, the success of this financing tool for equitable transit oriented developments is still to be determined.

Lessons Learned

Applicable to other efforts to create a TOD development financing tool

The GSAF will be a key tool for equitable TOD projects because the top loss offered by the State will allow CDFIs to take on more risk and offer better terms for acquisition financing than they typically do otherwise. The program will support projects that need time to secure the entitlements and construction/permanent financing by offering longer terms (5 years maximum instead of the typical 2 to 3 years). It is available for mixed-use and mixed-income projects, and has high maximums in terms of LTV and loan size, which is crucial for the purchase of large pieces of land, long holding periods or preservation transactions. Additionally, GSAF does not require developers to have completed the entitlement process before closing; this is crucial for TOD development projects, as the process can often take years for large, mixed-income or mixed use projects. CDFI's don't require entitlements to close; however, without them, they typically offer lower LTV. The GSAF offers financing options that are not currently available otherwise and will go a long way in supporting TOD projects. However, the GSAF doesn't address the need for pre-development financing, which will be essential for some transactions with high carrying costs.

Denver TOD Fund

Overview

The Denver TOD Fund (the Fund) is capitalized at $15 million with efforts underway to expand to $30 million in total loan capital. The revolving loan fund makes capital available to purchase and hold sites for up to five years along current and future rail and high frequency bus corridors within the city of Denver. Established in 2010, the Fund is a partnership of government, quasi-governmental organizations, banks, non-profits and foundations. The City of Denver made a substantial investment, providing $2.5 million in top loss investment by leveraging an additional $11 million in private capital. The Urban Land Conservancy (ULC) committed the initial $1.5 million of equity and leads the real estate acquisition, management, and disposition of assets for the Fund, partnering with developers to achieve the goals of the Fund.

The Fund's purpose is to support the creation and preservation of over 1,000 affordable housing units through strategic property acquisition in current and future transit corridors. Through the Fund, the partners are able to seize the opportunity to acquire both vacant and operating key properties. The goal is to acquire these properties as demand for housing near transit grows for all income levels, but before market speculation drives land values up and makes affordable housing development unattainable.

Products and Terms

Acquisition Only

- Acquisition of land and occupied properties.
- Single Borrower, ULC, creates disposition agreement with developer partners.

- Maximum five year term with loans up to $3 million.
- 3.4% interest rate: fixed interest only, paid quarterly.
- Each sub-loan made through the TOD Fund requires an equity investment of at least 10%, with a maximum LTV at 90%.
- Must demonstrate that the site has already received all necessary zoning approvals or will receive the necessary approvals within two years of loan closing.

Eligibility Requirements

Eligible Projects

- Mixed use and mixed-income allowed with no stated limits, rather this ratio is driven by the permanent financing source, with Federal sources to date limiting non-housing uses to 20%. The Fund maintains a focus on affordability through a goal of creating or preserving at least 1,000 units over 10 years.
- Sites are projected to be primarily rental, 60% AMI and below, with a goal of 15% of units at 30% AMI and below. Homeownership at up to 95% AMI will be allowed if the market warrants.
- Properties must be within ½ mile of current or future fixed-rail transit stations or within ¼ mile of high frequency bus stops, acquired both for the purposes of preserving existing affordable housing and for the purpose of developing new affordable housing, as well as supportive commercial uses.
- Preservation defined as existing multi-family properties, restricted and not, with plans for rehab or redevelopment via permanent financing that creates long-term affordability.

Eligible Borrowers

ULC is the sole borrower. Additional borrowers will be considered upon the expansion of the TOD Fund to a $30 million regional resource.

Geographic Requirements

Must be located in the city of Denver; expansion will open to the multi-county region by 2014.

Use of the Fund

Since April 2010, the Fund has deployed over $9 million, facilitating seven acquisitions throughout Denver. These acquisitions will allow for the preservation and development of nearly 500 affordable homes, a new public library, and approximately 100,000 square feet of community-focused commercial space - all in close proximity to a light rail station or high-frequency bus stop.

- *Yale Station.* 1.2 acres of land were acquired adjacent to the existing Southeast light rail corridor station at I-25 and Yale in July 2010. In an innovative step, the Regional Transportation District (RTD) voted unanimously to execute an agreement between RTD and the development team to create a Transit-Oriented Master Plan for the Yale Station area. The master plan includes the development of 100 workforce homes on the site complimented by commercial space for community use. RTD owns the 100 space parking lot onsite, while ULC anticipates the rental units to serve households at or below 60% AMI with a goal of at least 15% of units serving households at or below 30% AMI.
- *Mile High Vista.* Two acres of land were acquired adjacent to the West Corridor light rail, opening in April 2013 and located on a high frequency bus route. A new library is under construction with 80 workforce housing units, childcare and non-profit office space scheduled to start construction this spring.

- *Delaware Station*. One acre of land was acquired in June, 2011 across the street from the Evans Light Rail Station along the existing Southwest rail corridor. 50 residential workforce housing units are under construction and will be completed this summer. The ground floor includes 7,100 square feet of retail and commercial space.
- *Blake TOD*. A 1.4 acre property, acquired in November 2011, is site of the first stop on the future East corridor commuter line which will connect Downtown Union Station to Denver International Airport. This property, which includes vacant buildings, will be stabilized and eventually redeveloped into a mixed-use site with an emphasis on affordable housing. Development at this site will be catalytic_to the area, with much needed access to transit at the Blake Street Station scheduled to be operational in early 2016. ULC anticipates soliciting request for proposals for a development partner this year.

Lessons Learned

Applicable to other efforts to create a TOD development financing tool

- Transit systems operate at the regional level; therefore TOD development financing efforts are most effective when scaled to the regional level. The process of retooling the Fund to expand its availability outside the city of Denver is time consuming. Starting at the regional level in the beginning would have been more effective.
- Strategic relationships with transit agencies and metropolitan planning organizations (MPOs) are essential for success. The Denver Fund has struggled to incorporate transit agency joint development opportunities into the Fund work, with Yale Station being a positive exception. There has also been struggles with buy in from the MPO. DRCOG (the MPO) has endorsed a regional fund but has not made a financial investment.
- Preservation opportunities within Denver tend to be smaller properties, many of which do not provide the scale necessary to make rehab transactions financially feasible. Larger properties that do provide some of this scale are highly sought after, creating considerable competition and high prices. Thus, the opportunities the Fund has pursued have largely been ground-up development opportunities. Many of these sites, though very well located, are in need of demolition, environmental remediation, infrastructure improvements, etc., before they are ready for vertical development. ULC has been successful in getting EPA and/or Brownfield grants to pay for remediation but a sustainable model for financing is needed.
- There is a need for additional loan products. Increasingly there are needs for pre-development loans (including the allowance of clean-up/remediation as an eligible use), bridge loans, and infrastructure financing.
- Most of the challenge associated with mixed-use and mixed-income deals comes in on the permanent financing level – typically, underwriting doesn't allow more than 20% of property revenues to come from non-housing uses. Oftentimes, retail on the ground floor is a zoning requirement, but developers and equity/debt providers will not underwrite any commercial income for purposes of covering debt.

Bay Area Transit-Oriented Affordable Housing (TOAH) Fund

Overview

The Transit-Oriented Affordable Housing Fund (TOAH Fund) is a public-private financing resource for the development of affordable housing and other community facilities near transit lines throughout the Bay Area. The $50 million TOAH Fund was made possible through a $10 million investment from the Metropolitan Transportation Commission (MTC), the region's MPO. Additional capital for the Fund was provided by Citi Community Capital, Morgan Stanley, the Ford Foundation, Living Cities, and the San Francisco Foundation.

The TOAH Fund's objective is to improve the lives of neighborhood residents, and to help ensure that low-income families and individuals receive the benefits of living near quality transit, including walkable neighborhoods and a connection to the regional economy. This focus on healthy communities near transit arose from an in-depth demand analysis of affordable housing developers in the Bay Area. Through the TOAH Fund, developers can access flexible, affordable capital to purchase or improve available property near transit lines for the development of affordable housing, retail space and other critical services, such as child care centers, fresh food markets and health clinics.

Products and Terms

Maximum LTV for secured transactions is 110% of as-is appraised value for non-profit borrowers and 100% of as-is appraised value for for-profit borrowers. Demonstration of local public sector support for the project is required. It varies by product type, but generally for a loan to be considered "Conforming", a public sector agency must either invest cash or issue a commitment letter for an amount equal to or exceeding 10% of the acquisition cost of the land/property prior to the closing of the TOAH Fund loan. The TOAH Fund will consider projects that do not demonstrate this support on a limited basis, but these requests will be categorized as "Non Conforming." Developer must demonstrate that the site has already received all necessary zoning approvals or will receive the necessary approvals within 15 months of loan closing. All loans have full recourse.

Secured Pre-development Loans

Maximum loan size is $750,000, within the LTV limits stated above. The loan needs to be secured in the first position. The maximum pre-development loan term is 7 years. Loans with terms of five (5) years and less will be considered "Conforming." This loan can be stand-alone; i.e. not attached to an acquisition loan.

Acquisition Loans

Acquisition of land or existing properties for affordable housing, community facilities, and other neighborhood uses. Terms of up to 7-years and a maximum loan size of $7.5 Million. The potentially longer term associated with these loans is intended to allow developers sufficient time to assemble multiple parcels of land into a single TOD project. The potentially higher loan-to-value will reduce the need for developers to line up multiple sources of financing, enabling them to make offers on available land quickly within a competitive timeframe.

Construction Bridge Loans

The loan purpose may be new construction or rehabilitation. It is anticipated that most construction bridge financing will be provided to borrowers that have permanent public funding sources identified and committed but are waiting for funding to occur. This product will help bridge the gap in the intervening time period. Terms of up to 3 years, with a maximum loan size of $7.5 Million. Interest-only payments from an interest reserve, principal due at maturity or upon receipt of identified repayment source.

Construction-to- Mini-Permanent

Longer-term loans primarily for community facilities, childcare centers, and neighborhood retail, including fresh food markets. Construction period of up to 2 years, converting to a mini-permanent amortizing loan of up to 5/6-years, depending on construction phase. Maximum loan size will be $7.5 Million.

Leveraged Loans

Loan proceeds may be used to fund eligible pre-development, acquisition, construction, and/or mini-permanent financing to leverage an investment into a New Market Tax Credit (NMTC) eligible transaction, which could be community facilities, neighborhood retail, fresh foods markets, child care centers, etc. Leverage loans for New Markets Tax Credit transactions, including a 7-year term, and a maximum loan size of $7.5 Million.

Eligibility Requirements

Eligible Projects

- The TOAH Fund can be used for the acquisition of vacant land, or operating housing or commercial properties when the intent of the acquisition of the operating property is to preserve and/or improve housing affordability or address another stated community need.
- Multifamily rental housing – Projects that maximize affordability will be prioritized; At a minimum: (A) at least 20% of the units must be designated for occupancy by residents with household income equal to or less than 50% of AMI; or (B) at least 40% of the units must be designated for occupancy by residents with household income that does not exceed 60% of AMI.
- Homeownership must include a substantial amount of units for low to moderate income families;
- Mixed-use projects – Eligible for financing when housing component includes affordable units, and additional uses, such as neighborhood retail, childcare centers or social services, meet community needs;
- Community facilities – Stand-alone facilities such as childcare centers, health clinics, charter schools, social services, fresh foods markets or other facilities that serve a non-housing community purpose; and
- Other – Acquisitions of other property types, such as commercial properties, will be considered on a case-by-case basis.

Eligible Borrowers

Non-profit or for-profit organizations, government agencies, and/or joint ventures comprised of such entities with a track record of developing affordable housing or other projects that meet a community need.

Geographic Requirements

Project development sites must be located in a Priority Development Area ("PDA") in the nine-county Bay Area, which consists of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma counties, including incorporated cities. Project development site must also be located within a half-mile of quality transit services, which includes BART, light rail, and bus rapid transit.

Use of the Fund

To date, there have been four acquisition loans made through the TOAH Fund. There is a fifth acquisition loan approved, but not yet closed.

- *Eddy & Taylor.* In June 2011, the Tenderloin Neighborhood Development Corporation (TNDC) received a $7 million, 7-year acquisition loan for a site located two blocks from the Powell Street BART station, a major transit hub in San Francisco. The site currently operates as a parking lot but TNDC plans to develop the land into a 14-story affordable family housing building with an estimated 153 units, and 2,000 square feet grocery store on the ground floor. The project is fully entitled, but TNDC still has some financing gaps to fill and has not yet started construction.
- *Leigh Avenue.* In September 2011, First Community Housing received a $2.9 Million, four-year loan to pay for the acquisition of a parcel. The project will build a mixed-use senior housing development with 64 units

affordable to households that earn at or below 35-60% of AMI. There will also be 7,000 square feet of dental offices on the ground floor. The development is located near a VTA Light Rail station and the developer plans to provide free transit passes for all residents. This project is still in the pre-development stage.

- *West Grand.* In October 2012, East Bay Asian Local Development Corporation (EBALDC) received a $1.8 million four-year acquisition loan to purchase three parcels of land located near the San Pablo Corridor in West Oakland. This mixed-use project will incorporate affordable housing, up to 65 units in parcels A and C, and up to 52 units in parcel B. EBALDC will collaborate with the YMCA, the current tenant in parcel B, to develop a ground-floor community center and childcare center. Several trans-bay and rapid transit bus lines run along San Pablo Avenue. This project is not yet under construction.
- *5th and Howard:* In December 2012, TNDC received a $4 million five-year acquisition loan to maintain (?) ownership of a site located at 5th & Howard Streets in the south of Market area of San Francisco. The project will likely be a joint-venture partnership with a for-profit developer to build a 172 mixed-income rental housing project with 9,000 sq. ft. of ground floor retail space. 35% of the total units will be affordable for households up to 55% of AMI. The project is located a quarter of a mile from the Powell BART station and within one block of fifteen different Muni bus lines. This project is not yet under construction.
- None of the above mentioned projects are in construction yet, as the loans were funded over the last year and have long terms to accommodate the developers' timeline to secure entitlements and long term financing.

Lessons Learned

Applicable to other efforts to create a TOD development financing tool

- TOD development financing efforts can successfully target mixed use development when market forces support it.
- Acquisition financing needs to be flexible, offer long terms, high maximum loan amounts, high LTV options.
- TOD development financing can extend beyond early phase financing to construction, mini permanent and New Markets Tax Credit leveraged loans.
- Serving a large geography containing multiple jurisdictions is complex but possible when partnerships with regional agencies are in place to guide prioritization of investment. In particular, having an engaged MPO with interest in the TOAH Fund's mission helps bring other stakeholders to the table.
- Early, high risk capital provided by MTC allowed all efforts to align quickly.
- By conducting a demand analysis of affordable housing developers' needs, Fund participants can discover gaps in current financing system and use the findings to create financial products that fill existing gaps in the market.
- The ability of the TOAH Fund to provide long term and high LTV acquisition loans has allowed developers more time to assemble construction/permanent financing.
- Providing a wide range of products for different uses allows the fund to fit the varying needs of equitable TOD developers.
- The City of San Francisco's ability to offer "seconds" (junior loans) to pay for some of the pre-development costs including interest is significant. Holding and carrying costs can be huge for long term loans and the high LTV from TOAH might not be enough to allow developers to carry the loans for years.

Appendix G. Summary of Capital Available

The purpose of the summary of available capital for Equitable TOD is to provide a scan and in-depth analysis of what type of capital is currently available for equitable TOD projects in Los Angeles County and how well it meets their needs. The scan looks at a variety of projects, 100% affordable, preservation, mixed-income, mixed use, community facilities, as well as the difference phases of development (acquisition/pre-development, construction, permanent). Among the financing tools, the scan refers to existing pooled funds which were further described in a separate document.

The scan reflects the information gathered through discussions with six Community Development Financial Institutions (CDFI's) and four Community Lending Divisions of major commercial banks, all active in Los Angeles County.

This comprehensive scan identifies some gaps in financing tools for specific types of projects. It will inform the discussions with developers. The next step will be to identify which gaps have the most impact on a developer's ability to develop an equitable TOD project and which ones it would be most meaningful to try to fill.

100%Affordable Housing Projects

Housing projects with all units restricted for households at or below 60% AMI (Area Median Income).

Acquisition

Source of capital: Community Development Financial Institution ("CDFI") Revolving Loan Funds & Pooled Funds

There are five principal CDFI's active in the LA market (LIIF, Enterprise, LISC, CSH, Century) providing financing for the acquisition of land or occupied properties to be developed into affordable housing. Some CDFI's are more focused on a specific population (for instance, the homeless), some on a specific market, and some on "riskier, more market-driven" transactions (mixed-income, mixed-use; see below).

Acquisition loans are generally interest only, with 2 to 3 year terms (including extensions). Terms vary substantially on among deals, but are usually within the following parameters: 70% - 75% LTV for land, depending on whether entitlements have been secured; 80% - 85% for occupied properties (not including preservation transactions, which are addressed separately). Rates can be fixed or variable. When fixed, they currently fall between 6% and 7.5%, with a few outliers on the high and low ends of the range. Depending on circumstances, deals are structured with a 100% capitalized interest reserve or rely on property income (with a 1.15 to 1.20 Debt Coverage Ratio) or borrower's resources.

At present, there is substantial capital available from the CDFI's mentioned above; all indicate they have much more capital to deploy than is currently spoken for. The CDFI's also have experience partnering together on larger transactions that exceed their maximum loan size. There are a few developers who have reached their maximum exposure with some CDFI's, but this is by no means the norm.

While CDFI's have substantial amounts of capital at the ready, the financing tools mentioned above do not adequately address the specifics needs of TOD projects that are complex and require more time than typical to assemble land, obtain entitlements, and secure take-out financing. The maximum term is often too short and the LTV too low to properly address the high carrying and holding costs (in particular interest payments). Pooled funds, explained below, offer good alternatives though.

The loss of redevelopment funds will greatly impact developers over the next few years, especially those active in former redevelopment areas that relied on these funds for low cost, first-in financing: interest rates were typically around 3%.

Pooled Funds: Pooled funds offer options for acquisition financing, especially for TOD projects, with the Golden State Acquisition Fund (GSAF) offering up to 95% LTV for for-profits, 100% for non-profits, and 5 year terms. New Generation Fund (NGF) and Los Angeles County Housing Innovation Fund (LACHIF), if restructured, may offer similar LTV or higher, and a similar term, or longer.

Pre-development

Unsecured pre-development capital that is so crucial in particular for larger, complex projects that take time to get to start of construction is limited. Most CDFI's active in LA County offer some options to existing borrowers for deals that have a fairly clear path to construction closing. Some offer 1 or 2-year lines of credit for deals that are in the earlier stages of development. Some CDFI's have maximum exposure levels, portfolio wide, for unsecured financing. By all accounts, this is the most difficult type of financing to secure.

Community lending divisions of some banks, who used to offer similar options, no longer do so except for those with EQ2 funds. EQ2 funds are forgivable loan dollars that some banks have available for community oriented projects. They are often made available at or below 4% interest.

Typical loan or credit line amounts are $250K to $500K, with rates around 7.5%. In limited cases, CDFI's have offered larger amounts for transactions that meet their mission or targets particularly well. All products are fully recourse to the borrower and guaranteed by the parent when relevant.

Construction and Permanent

Community lending divisions of commercial banks are actively competing for deals that qualify for Community Reinvestment Act (CRA) credits. Because of their large goals in Los Angeles County, in aggregate, the amount of affordable construction and permanent debt available is virtually limitless for 100% affordable transactions. This is true for both taxable and tax-exempt debt, as long as there is no disruption in the capital markets, as happened in 2008 and 2009, when high pricing volatility, concerns about the State's financing commitments, and the overall economic climate caused a severe contraction in commercial debt products. The availability of capital is not expected to change in the near future as banks are competing for fewer deals as a result of the lack of public subsidies. Small transactions are the exception: construction loans of less than $5MM and stand-alone small permanent loans (especially in the case of re-financings) have more difficulty attracting capital.

Terms of permanent loans are typically 15 to 18 years with 30-year amortization. Debt service coverage ratios of 1.15 to 1.20 are typical, depending on characteristics of the deal. Some smaller permanent loans relying on 15-year project-based Section 8 contracts are fully amortizing.

9% Low-income Housing Tax Credits (LITHC), a key financing tool of affordable housing projects, remain extremely competitive. 4% LIHTC's are non-competitive and readily available. Developers can access well priced equity in LA County, as LIHTC investors—principally CRA-motivated banks-are chasing fewer deals to invest in. However, yields have been on the rise for the past six months with corresponding decreases in pricing, creating a gap in permanent financing that needs to be filled by additional soft debt or grant resources. In addition, small transactions that need less than $5MM in equity generally struggle to attract investors.

Long-term secondary debt

Public subsidies that translate into long term (often 55-year) soft debt are the cornerstone of affordable housing finance in California. The debt is typically subordinate to commercial debt and due only if the project generates sufficient cash flow to pay interest and principal (payment from residual receipts). The vast majority of new construction deals, if not all, as well as major rehabs rely on such subsidies.

For the past few years, funding programs from local governments, State of California, and the Federal Government (HOME, CDBG, Section 8, 811, 202) have been under tremendous pressure as government at all levels has faced major budget issues. Affordable housing dollars have already seen drastic cuts or simply been depleted, as is the case with the bond funding authorized under Proposition 1C. California Redevelopment agencies were dismantled in 2011, further exacerbating the situation. Most experts expect that the current financing environment will have a long-lasting, negative impact on the production of new affordable housing, as few projects can proceed without public subsidies, and “legacy deals” (i.e. deals that are using the balance of public subsidies still available) are becoming rarer.

Industry advocates are working to identify and secure replacement sources of funds to fill the gap at the state and local level. Advocates are also working on preserving and expanding federal resources. Considering the political environment, it is difficult to predict how successful they will be, though the near success of the 2012 push for a permanent funding source at the state level gives grounds for cautious optimism around this year’s renewed effort to pass the California Homes and Jobs Act.

Lessons/Gaps

- Major gap: public subsidies (55-year soft debt).
- Pre-development financing (affordable loans) is a scarce resource, which makes deals with high holding, carrying costs difficult, especially for developers with smaller balance sheets.
- Patient acquisition capitals is a need for TOD projects, when developers want to acquire land near transit in advance of escalating real estate costs, or need a substantial amount of time to assemble the land, obtain the entitlements and secure the take out financing. GSAF offer terms up to 5 years with high LTVs; NGF and LACHIF if restructured, may offer similar terms.
- The hardest affordable transactions to finance are small properties that have a hard time obtaining construction financing.

Preservation Projects

Preservation projects are properties assisted under a variety of Federal programs–subsidized mortgages (Section 236 and Section 202), operating subsidies (Section 8), and tax subsidies (LIHTC and tax-exempt bonds)--whose restrictions are in danger of expiring, at which point the properties could convert to market . In Los Angeles County, they fall into two main categories:

- Projects with expiring long term HAP contracts (Housing Assistance Payment contracts, or Section 8 contracts). Owners/buyers can opt to extend the affordability of the property by obtaining from HUD a long-term extension of the Section 8 contract (up to 20 years) and increasing rents via the mark-up-to-market process, allowing the property to benefit from an increase of the contract rents to better align with market.

- Low-income Housing Tax Credits projects at the end of their initial compliance period. General Partners of the original Limited Partnership might want to exercise their option to purchase a property (often the Limited Partners' interest) to maintain control and continue managing it.

There are currently many products for preservation projects with HAP contracts, for all phases of development. Three CDFI's in particular offer acquisition loans for properties with expiring HAP contracts that are likely to get a 20-year extension. Most contracts don't get extended until the construction loan closing, mostly because developers would rather optimize the permanent loan (which term will be dependent on the number of years left of Section 8), and because they want an opportunity to wait for the best time to negotiate a mark-up-to-market with HUD. The CDFI's allow developers to take control of a property once it gets on the market, and bridge the extension of the Section 8 contract and the construction financing. Their underwriting looks at the property condition and the developers' ability to put together the financing needed to do the rehab, the historic occupancy, the developer's underwriting of future contract rents and operating expenses. Loans can be up to 3 years, but are typically 6 months to a year, as a short bridge to construction financing. GSAF and NGF offer higher LTV limits (95% to 110% of the lowest of the "as-is value" or purchase price - see Funds description) and longer term (GSAF). All loans are recourse and require parent guarantees. Currently, the market for Section 8 properties is extremely competitive with 20 or more developers making offers on transactions, sometimes overbidding. This puts pressure on cap rates, values and loan underwriting.

Developers have attractive options for construction and permanent financing: 4% LITHC and tax-exempt bonds, and the FHA 221 (d)(4) and 223(f) programs. In particular, the FHA loan products offer longer amortization than private commercial lenders for non –preservation projects (35 – 40 years) at very competitive rates (below 4%). Further, FHA underwrites Section 8 income without considering Congressional appropriations risk and can offer 35 or 40-year underwriting of a 20-year HAP contract. Few private lenders take such an aggressive posture on Section 8.

For LITHC projects at the end of their initial compliance period, a couple of CDFI's offer bridge financing to purchase the properties and hold them for up to 5 or 7 years, until a restructure can be put together. The loans are mini-permanent loans with 20 to 30-year amortization periods. The restructure itself that typically involves some rehab face the same challenges as a typical affordable housing transaction, mainly the lack of long term public subsidies.

A few transactions are lacking real options in terms of acquisition financing: the purchase of affordable housing projects that have an existing senior loan on title, with a senior lender who will not agree to an early repayment or to allow subordinate financing. These transactions require unsecured financing, which, as mentioned above is not readily available. This type of situation is still rare, but CDFI's have seen an increase in request from developers for innovative financing to address it.

Lessons/Gaps

- Some transactions might require some unsecured financing, which is a rare commodity.
- Occupied properties that are unrestricted but de facto affordable fit a different profile and cannot access the preservation tools. If they are acquired with a plan to get restrictions on title down the line, the owners can access the standard sources of funds for affordable or mixed-income projects. If they are to stay unrestricted, they typically have to seek conventional debt or equity. For small properties, with owners that might be difficult to underwrite, access to capital is very limited.

Mixed-income Projects

Mixed-income projects include projects that qualify for CRA credits, with 20% of the units set aside for households at or below 50% AMI, "80-20", or with 40% of units set aside for households at or below 60% AMI, "40-60". Also includes market-rate projects with small (5% to 15%) inclusionary requirements (per a local city).

Note: Preliminary interviews with developers indicate that mixed-income deals are viable only in robust rental markets where strong rents translate into increased hard debt to compensate for the decrease in long term subsidy (versus a 100% affordable transaction). Such markets are those where there is a substantial differential between market rents and affordable rents. Without an upside on market rents, these transactions are infeasible: they cannot support sufficient debt and provide an adequate return on investment. In most markets, 100% affordable transactions are easier to finance –setting aside the question of the current lack of public subsidies. The developers' perspective and its relationship to TOD will be analyzed further once all interviews have been completed.

Acquisition & Pre-development

Source of capital: CDFI's Revolving Loan Funds

Four of the CDFI's active in the LA market will finance in mixed-income developments, especially those that qualify as CRA deals, i.e. 80/20 (with 20% of units affordable to households at or below 50% AMI) or 60/40 (40% affordable). These deals qualify for take-out financing from the community lending divisions of banks. One CDFI would only consider transactions with a large proportion of affordable housing (at least 40%) and with market rents that don't deter from "public benefit". One CDFI that has historically done a fair amount of 80-20 deals indicated they target "affordable markets", where the average income in the census tract is below 120% AMI.

The terms offered by CDFI's are not unlike those for 100% affordable housing projects, but are likely to be more conservative for terms and rates to reflect the market risk. 100% recourse and guarantees are typically required.

CDFI's have a limited appetite for those deals, except in strong rental markets; they are cautious in underwriting these transactions. They support strong developers with experience in market-rate rentals and focus on the likelihood of take-out (see below). They will not take substantial market risk and will not underwrite aggressive market rents: they typically underwrite rents that assume a favorable differential compared to area market rents.

CDFI's are not currently doing many mixed-income projects, as most are infeasible without public subsidies or high market rents.

Market transactions that include an "inclusionary" requirement (5% to 15% of the units affordable, depending on local cities' requirements) do not fit the mission of most CDFI's, who would only look into it in the right market, for existing relationships on an exception basis. One CDFI did indicate interest in these deals, especially for infill, new construction projects in "affordable markets" (below 120% AMI). The transactions are underwritten as "market transactions" that typically rely on conventional debt and equity. The resources for such projects are still to be evaluated, based on feedback from developers.

Pooled Funds:
NGF and GSAF provide some options for mixed-income deals. Because of the first loss position from the State or City/PRI funds, these funds can provide attractive terms for mixed use projects. However, NGF hasn't seen requests for such projects and GSAF just closed, so its ability to deploy capital for mixed use projects is still to be tested.

Conventional Construction and Permanent Financing

In an environment with capital chasing fewer deals, banks with CRA goals are interested in these transactions, especially for existing relationships. All banks interviewed are currently financing construction for mixed-income projects, though their underwriting criteria varied. Some were limited to 80/20 deals where the affordable units compose 80% of the units, and others would vary the affordability mix such that as few as 20% of the units were affordable. The majority of banks said that they are receiving more interest for projects in which the unit mix is 80% market-rate and 20% affordable. The primary consideration for all of the banks was the availability of takeout financing, particularly the appetite of the secondary market for certain types of loans. The majority of banks indicated that they are seeing more mixed-income properties located in strong urban cores.

Additional considerations affecting underwriting include the conditions in the sub-market in which the building is located. Depending on the strength of the market, banks would either underwrite to market rents, or would require a discount from market (no more than 10% discount from market). Banks indicated that a TOD may be in a strong or a weak submarket, and did not in and of itself warrant better terms or more aggressive underwriting. In all cases, market rent is determined by an appraisal or market study and confirmed by internal bank analysis.

As with financing for commercial space, the strength of the borrower was also a determining factor in the banks' willingness to extend credit. Those borrowers with more experience building and leasing up mixed-income properties would be more likely to receive permanent financing commitments, which would then enable construction lending.

Long-term secondary debt

Public programs such as Low-income Housing Tax Credits (LITHC) and Tax Exempt Bond financing can be used for 80/20 deals. Actually, 4% LITHC and Tax Exempt Bonds are the most effective tools to finance CRA-eligible mixed-income projects. Both resources are currently available.

However, such transactions typically require long term public subsidies to support the affordable component, unless market rents are extremely strong. Resources are limited: mixed-income projects are not eligible for most typical local and state public funds, and the available resources are dwindling– see the discussion about long term subsidies for affordable housing.

Lessons/ Gaps

- The major gap relates to long term public subsidies, which are key for 80-20 or 60-40 deals in most rental submarkets in Los Angeles County.
- In most markets with low rents, 100% affordable deals are easier to finance than mixed-income projects, assuming long term subsidies are available. Unless the market rents are high, the additional debt from the market piece can't compensate for the decrease in subsidy (in comparison to affordable projects). Several developers mentioned this with regard to the Los Angeles County market (especially when prevailing wages are required in order to obtain a tax exempt bond allocation).
- There are existing options for acquisition (especially from pooled funds that allow higher LTV and longer terms), construction and permanent financing. However, the underwriting of mixed-income projects is conservative due to the greater exposure to market. These deals are easier to finance in TOD areas, as there is more likelihood of an upside on market rents – however, this wouldn't be true for all TOD projects, only those in the strongest markets.

Mixed-use Projects

Projects with a housing component and a commercial component such as retail, office or community facilities. See separate summary on community facilities.

Acquisition and Pre-development

Source of capital: CDFI's Revolving Loan Funds
Four large CDFI's active in Los Angeles County would consider providing acquisition and/or secured pre-development financing for mixed use projects that associate affordable housing with a commercial use (office or retail). Some CDFI's are more active than others in that field, but most would prioritize commercial uses that have a public benefit (i.e. bring services needed in an area). One CDFI is willing to look at a broad variety of traditional commercial uses. Most offers loans to support acquisition; a couple would consider leasehold improvements and tenant improvements. Two additional CDFI's would consider mixed use projects on a case by case basis.

The terms CDFI's would offer are not dissimilar to what they offer to affordable housing deals – however, the maximum LTV is typically lower, especially without entitlements (in the 70s) and pricing higher, as a reflection of the market risk. Recourse and repayment guarantees are always required.

Unsecured financing is less easily accessible for these deals than for 100% affordable deals.

Because of the market risk, CDFI's have a cautious approach to such projects. Their underwriting focuses not only on the strength and experience of the developer, the market demand and potential early agreements with tenants, but also on the likelihood of the takeout, including any long term public subsidies needed to make the project work. They require some evidence that a conventional construction/perm lender would be interested in the deal. At such an early stage, most CDFI's would want to see projections for the construction/permanent phases that do not rely on underwriting the commercial income. Those who do underwrite the commercial income would require a letter of interest from an anchor tenant. Underwriting a series of small retail spaces without an anchor might prove difficult. De facto, unless the market demand is obvious, the underwriting criteria limit the early financing options for mixed use transactions.

There has been little CDFI activity recently in terms of new mixed use projects in Los Angeles County; the main reasons are the lack of public subsidies for commercial space as a result of the dismantlement of redevelopment agencies, the fact that commercial lenders don't underwrite the take-out, the weakness of the commercial market, and the fact that a lot of the mixed use projects are attached to a 80-20 transaction (mixed-income), which is hard to finance currently.

Pooled Funds:
NGF and GSAF (see detailed analysis) provide some options for mixed use. Because of the first loss position from the State, GSAF is, among all options, the most likely to be aggressive on mixed use. However, again, it should be expected that the developer will need to show strong evidence of the market demand and strength and present fairly conservative scenarios regarding the take out.

Construction and Permanent Financing

Conventional construction and permanent financing for projects that qualify for CRA credits (i.e. "80-20" or "60-40" deals) is virtually limitless, as the community lending divisions of the banks still have an appetite for CRA credits and will continue to do so as fewer deals move forward. These projects can include a mixed use component.

However, in the current real estate market environment most banks - community lending divisions as well as traditional commercial divisions - are very hesitant to underwrite a commercial component. This means that, even though they might be willing to include the construction costs of the commercial space in the overall budget (the shell and perhaps some TI), and accept the risk the commercial space might stay vacant; they are often not willing to underwrite the commercial income to size the permanent debt.

Most of the lenders interviewed further indicated that they would be hesitant to fund construction debt on a project if they felt that the inability to lease the commercial space could affect the lease-up of the housing units. The overwhelming sentiment of lenders seems to be that the housing must stand on its own (i.e. it cannot subsidize commercial space, and vice-versa), and that any threats to the ongoing success of the housing component should be minimized. The only caveat was that in most urban areas, the demand for affordable housing is so strong that vacant storefronts may not be sufficient to deter renters. Thus the inclusion of some commercial space in a project (assuming it wouldn't require commercial permanent debt), does not pose an impediment to financing. When there is a mixed-income component, however, the banks were far more wary of the potential impact of vacant commercial space.

While lenders' opinions did not vary too widely, there are some banks that will consider underwriting commercial income in some limited circumstances: for the right developer (a strong developer or joint venture experienced with mixed use), and in the right market (if market forces obviously support a commercial component). Still, in the current environment, after the recession of 2008-2010, banks - community lending divisions as well as traditional commercial divisions - are still hesitant to take on projects with a commercial component. Those that will underwrite commercial debt often use such underwriting metrics as 20% vacancy, and require pre-leasing with minimum 5 year initial terms (credit tenants preferred). As a practice, though, this type of lending is fairly uncommon amongst commercial lenders, and is reserved for larger projects attached to seasoned developers with strong balance sheets.

Projects that don't qualify for CRA credits, traditional market housing developments with an inclusionary affordable component and a commercial component, if they are larger and in strong markets have access to conventional debt and equity. However, it is difficult to secure the debt in the current environment, as commercial lenders don't underwrite commercial projects, except in very strong markets. Equity is available but at very high yields. Additional information on equity is still being gathered, including from developers.

Long-term Secondary Debt

See notes on affordable housing regarding the current status of long term soft debt. With the end of redevelopment, there are no specific sources of long term subsidies available to support specifically the commercial component of mixed use projects that don't attract traditional retail investors. As efforts to create new sources of long term soft debt at the State and local level have an eye on TOD (which might or might not be a stated priority for future programs), it is likely such resources will include some options for mixed use projects. At this stage though, it is impossible to be more specific about what the new sources, if they get created, will look like.

Lessons / Gaps

- There is a gap in financing tools for small retail spaces in "weaker" markets, as they are difficult to underwrite and need long term public subsidies (currently not available). This applies to all phases of development.

- For transactions in strong markets, with anchor tenants and experienced developers, the capital for projects with an affordable housing component is available, if not easily accessible. However, the underwriting is tight and the financial institutions have a limited appetite for those transactions.
- Unsecured pre-development financing from CDFI's or banks is an extremely scarce resource for mixed use projects.
- Specifically for non-profits, the need is at the organizational level: they need permanent working capital to support their services, not necessarily for facilities.
- Confirming the strength of the market and the fact that a commercial component makes economic sense are crucial first steps. A mixed use TOD project would get interest from a variety of financial institutions, but there is no certainty they would underwrite it unless the market is strong. Of particular concern are small commercial projects with a couple of storefront spaces: without scale, they cannot create a vibrant commercial neighborhood if there isn't one yet. If a commercial component is required because of the applicable zoning (and not market demand) as is often the case for mixed use affordable housing developments, the key financing tool are the public subsidies.
- Regarding resources available in terms of conventional equity - see below.

Community Facilities

New Market Tax Credits (NMTC) are a very efficient option for financing larger community facilities. CDFI's allocatees in Los Angeles County would prioritize "mission deals", especially community facilities, but NMTC are a scarce resource. In addition, they are not well suited for smaller projects, as the transactional costs outweigh the benefits for projects that need less than $5 Million in credits (or debt financing needs), and most allocatees have a similar threshold.

Three CDFI's have capital available and provide a variety of financing tools for Federally Qualified Health Centers (FQHCs) and charter schools. They also support child care centers and community centers, but on a much more limited basis. Tools include: acquisition, bridge, construction, and mini permanent loans, some financing for TI. The community lending divisions of the commercial banks generally do not finance community facilities. Some commercial banks provide acquisition financing or lines of credits, but on a very limited basis (mostly local banks, for existing relationships).

Typical financing tools for affordable housing can also provide some resources for community facilities but on a limited basis. There are strict rules regarding community access and costs.

Conventional Equity And Mezzanine Debt

An equity investor and a commercial real estate capital advisory firm who places equity were interviewed. One is involved in rehabilitation and refinance projects for affordable housing and ground up market-rate developments with affordable housing inclusionary requirements. The other one focuses on acquiring operating properties, mostly expiring LIHTC28 properties and Project-Based Section 8 properties; all properties must satisfy Community Reinvestment Act (CRA) requirements with at least 20% of the units affordable to households earning no more than

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[28] Low-income Housing Tax Credits.

80% of the area median income. The latter is a "cash flow equity investor" who invests as a Limited Partner in properties that will bring a regular stream of cash flow; they invest for a longer term than most investors[29].

The comments below reflect their feedback.

Both interviewees indicated that there is an unlimited supply of capital for both market-rate ground up construction and affordable housing preservation deals that can support conventional equity. Multifamily is doing well. Market-rate multifamily development is the "flavor of the day" for investors. Other assets classes such as industrial development and retail are somewhat out of flavor. The general feeling is that there is a lot of capital chasing deals. In particular, there is a lot of institutional equity in the market; Real Estate Investment Trusts (REITS) and life insurance companies are pretty active.

Regarding pricing, they mentioned that, from their perspective, it is not overly expensive to attract capital. Their sense was that the market is getting overheated again, and investors are paying cap rates that are too high. However, some do not want to be too aggressive, as it might impact their ability to raise more capital in the future.

Most of the equity investors, if not all, are focused on returns. Only a few investors are mission driven. Most investors, at the core of their investments, look for an upside at resale; some, as one of the interviewees, look for long term cash flow. The expected returns are about 8% - 12% (can be more for specific transactions). Some investors require fixed returns. Others don't, but set thresholds of returns above which their partners can benefit more in profit sharing; they require a protection on the downside and get all the cash flow in case of low returns.

The interviewees also mentioned that Los Angeles is an attractive market for investors, with heavy competition to place equity. Some investors want CRA credits in certain markets. Los Angeles is a supply-constrained market. All things being equal, investors are interested in TOD and would factor this in their investment decisions.

Inclusionary affordable housing requirements can make it harder for developers to raise the equity they need. It's not a "risk perception" issue, as some are aware that there is less inherent risk in affordable housing. However, such affordable housing requirements "squeeze" the returns and make projects less marketable to equity investors. Most investors don't get or don't care for the benefits from financing an affordable housing project. Very few investors outside of those involved on LITHC transactions are trying to invest in affordable housing. As investors are pursuing market-rate projects and the returns that can be expected from it, they won't provide any break on returns if deals include an inclusionary requirement. In other words, a developer won't have any problem getting the equity, as long as the return meets the investors' expectations, and those expectations are similar to other investments options.

They both indicated that mezzanine debt is also available, even though it is fairly expensive. Mezzanine debt is defined here as an instrument designed to fill a small part of equity gap. It comes in on top of the conventional debt (per example at 75% LTV) and provides financing up to 90% LTV. It is priced accordingly to the high fixed rate of return providers require.

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[29] They will go up to 97% of the capital stack and require a small co-investment from the owner. They provide the true equity required by lenders. They own a share of the property and cash flow (depending on what they negotiate). Their pricing also reflects their investment strategy, and factors in the physical needs of a property.

FRESH FOOD

California FreshWorks Fund

Overview

The California FreshWorks Fund (CAFWF) is a healthy food financing initiative that invests in new, expanded and/or innovative grocery retail and distribution that increases the availability of healthy foods in California's low and moderate-income communities. This public-private partnership has raised $264 million to invest in bringing healthy food options to California's underserved communities. While CAFWF is modeled after the successful Pennsylvania Fresh Food Financing Initiative, the Fund is significantly larger in terms of capital invested and number of investment partners. Another significant difference between the two funds is that large amount of grant funds received by the state of Pennsylvania for the fresh food financing initiative. Since CAFWF is comprised largely of private investments and philanthropic dollars as opposed to large grant investments from the State, the Fund is not able to provide large grants as incentives (as did the PA Initiative) to potential borrowers and, since the funds are mostly market investments, its capital has more constraints. CAFWF investment partners include foundations, commercial financial institutions, health care systems, non-profits and individual investors. The Fund is managed by NCB Capital Impact.

CAFWF funds are broken into four different investment pools:

- Syndicated Loan Pool ($125 million): Used for equipment acquisition, tenant improvement, and inventory loans.
- Leveraged Loan Pool ($100 million): Used in New Market Tax Credits (NMTC) transactions.
- Grant Pool: These funds are separated into large and small grants. The larger grants (approximately $50,000) are used for pre-development, job training and workforce development, and innovation. Businesses can also receive smaller grants (typically under $5,000) for use to "make the business case," which includes market analysis studies, business plan development, feasibility studies, etc. The smaller grants are a way for small businesses and small, healthy food initiatives to establish a sound platform for a larger grant or loan.
- Loan Pool: These funds are used for innovative or riskier projects that might not meet all of the requirements under the Syndicated Loan Pool program. More flexible underwriting is used to analyze these projects compared to those funded under the Syndicated Loan Pool.

The initial origination period for the Fund was three years, but that time frame will likely be extended given the amount of capital raised. From its Fund closing in mid-2011 to December 31, 2012, the FreshWorks Fund has invested $31 million in eleven different healthy food projects.

Project Highlights

Northgate Gonzalez Market, Inglewood: Northgate Gonzalez, a grocery store operator in Southern California founded by a Mexican immigrant in 1980, received $7.6 million using an NMTC allocation and leverage lending to finance equipment, store build out and working capital for a new 30,000 sq. ft. full service supermarket. The new store is took over a vacant lot, increasing access to healthy foods for over 105,000 people and creating 110 new jobs.

Numero Uno Markets, South Los Angeles: Numero Uno, an eight store chain serving low-income communities in South Los Angeles, received a $12 million business term loan. The financing was used to restructure the company's debt, improving its cash flow and allowing it to invest in upgrades and expansion. By participating in FreshWorks, Numero

Uno has agreed to stop the sale of tobacco, install at least one junk-food free checkout aisle per store, and hold regular health and wellness fairs at each of its stores.

Lessons Learned

The Fund has been very successful in its first year of operation. Yet, the distribution of projects and funds has been uneven, with a greater amount of investment in Southern California. A couple of the reasons for this is that there are a greater number of independent grocery stores serving lower-income neighborhoods in Southern California than there are in Northern California and, because the program business development coordinator is based in Los Angeles, more initial outreach was made in the Los Angeles region. CAFWC is now conducting targeted outreach to areas in Central and Northern California.

Most of the grocery store operators in California lease their space, rather than own, so the need for real estate acquisition is quite minimal. This finding affects how products are marketed and what financing products are most utilized. While some of the larger, more sophisticated operators are well positioned to take advantage of leveraged loan opportunities (NMTCs transactions), they are also more likely to already have access to traditional financing and have less of a need for syndicated loan pool funds. On the other hand, smaller operators have a greater need for CAFWC funds, but are concerned with prepayment penalties because they are already capital constrained. Smaller operators may require more technical assistance because their financial and operational systems are not as sophisticated as the larger, more established operators, which illustrates the need for greater flexibility of the financing products offered in the Fund. Still, the California FreshWorks Fund, similar to New York's HFHC Fund and Pennsylvania's Fresh Food Financing Initiative, has made significant impacts to bring healthy, affordable food to low-income communities and provides an opportunity for Community Development Financial Institutions (CDFIs) and other community development organizations to address the needs of underserved communities by strengthening mission-oriented business.

Key Takeaways

Creating new "Fresh Food Funds":

- Before setting up a new fund structure and creating products, it is crucial to fully understand market demand and borrower needs. While there are some similarities across the national grocery market industry, each state has its own peculiarities that should be addressed with targeted financial tools.
- Providing small grants for feasibility studies and business plan development is key; they can lead to future lending opportunities.
- The origination period for a new fund should take into account the fund size and project lead time in order to provide enough time to deploy the capital and achieve program goals.

Need for additional financing in Los Angeles County:
It appears that the FreshWorks Fund, while being in the early stages of program implementation and facing some challenges reaching smaller operators, has had success with funding new grocery stores in underserved neighborhoods. At this point, until the success of the program can be fully assessed, it does not appear to be a clear gap in the availability of capital for fresh food in Los Angeles County.

As for using NMTCs to finance fresh food markets, see comments in the "Summary of Resources Available", especially regarding how competitive the process to secure an allocation is and the minimum project size recommended to make the program work.

New York Healthy Foods Healthy Communities Fund and National Healthy Food Financing Initiatives

Lessons learned from the New York Healthy Foods Healthy Communities Fund are shared below, for information.

Overview

The Low-income Investment Fund (LIIF) is providing fresh food financing through three programs: a $30 million loan fund serving New York State; national New Markets Tax Credits (NMTC), and $3 million of national funding from the CDFI Fund's Healthy Food Financing Initiative (HFFI).

The New York Healthy Foods Healthy Communities (HFHC) Fund is a $30 million public-private partnership designed to increase access to healthy foods in low-income communities in the state of New York. The first fund in New York dedicated entirely to healthy food, the HFHC Fund was established in 2010 to provide financing for capital expenses related to the new construction or expansion of food retail that is not typically filled by conventional financial institutions. The goals of the program include increasing the supply of affordable fresh food in underserved areas, improving the diets and health outcomes of the state's residents and spurring economic development in the neighborhoods in which it invests. The program is funded by the Empire State Development Corporation and the Goldman Sachs Group, with the Low-income Investment Fund (LIIF) acting as the fund administrator with support from The Reinvestment Fund (TRF) and The Food Trust (TFT).

Both grants and loans are offered through the HFHC Fund to finance capital projects and related pre-development activities including real estate acquisition, construction or rehabilitation, leasehold improvements, equipment and infrastructure. Loan size ranges from $250,000 to $5,000,000, and can be even larger for New Markets Tax Credit transactions. Pre-development, acquisition, and construction loans have a maximum term of two years, while term and leveraged loans can be up to seven years (with up to 25-year amortization for real estate loans). The Fund can provide up to 80% of the real estate value and up to 50% of the equipment value as a loan. In some cases, loans can be paired with a grant. Grant sizes range from $5,000 to $250,000 and can be used for pre-development, land assembly, infrastructure, real estate or equipment.

In addition to the New York HFHC Fund, LIIF has two other tools to support the creation of affordable, healthy food retail in underserved neighborhoods across the country. The first is an allocation of New Market Tax Credits (NMTCs), which LIIF can use in larger retail developments with a food retail component (this is contingent on LIIF receiving further allocations). The second is a $3 million grant from the CDFI Fund's Healthy Food Financing Initiative (HFFI) – Financial Assistance (FA) program that is being used to expand the New York HFHC Fund and to support deep mission projects in areas hit by natural disaster, specifically New Orleans and areas of New York City devastated by Superstorm Sandy.

Project Highlights

MyTown Marketplace: A husband and wife received a grant from the NY HFHC Fund to reopen a vacant supermarket in Highland Falls, NY, home to many seniors and families. The funds were used to re-open a grocery store shuttered after the previous owner past away and did not leave a succession plan. . Prior to MyTown's opening, the mayor of Highland Falls was providing residents with weekly bus service to the nearest grocery store, which was 11 miles away. The store increased access to healthy food to this low-income elderly population.

Key Food Market: In March 2012, Amy and Joe Doleh, operators of three successful supermarkets in New York City, received an acquisition and construction loan and grant from the NY HFHC Fund to open a fourth store in Staten

Island, NY, bringing a full-service grocery store to a low- and moderate-income community with limited access to fresh, healthy food. The project is expected to create 33 new permanent jobs over the next three years.

The Plaza at Chelten: Using LIIF's NMTC allocation, this project received $14.5 million for permanent financing to renovate and revitalize 50,000 sq. ft. retail complex in Germantown, a low-income neighborhood in Philadelphia, PA. The plaza is anchored by an 18,000 sq. ft. Save-A-Lot grocery store, which features expanded produce and fresh meat departments. The project is anticipated to create 110 permanent jobs in the community.

ReFresh Project: Located in the Mid-City neighborhood of New Orleans, LA, the ReFresh Project will transform a 60,000 sq. ft. vacant building into a healthy food center that will include a supermarket, a commercial kitchen staffed by at risk youth who will run a café and prepare healthy school lunches, and a teaching kitchen to promote nutrition in the community. This community has been without a grocery store since 2004. This critical project blends an array of capital sources including New Markets Tax Credits, philanthropy, governmental funds, bank debt, and equity. LIIF will use HFFI funds to provide a subordinate, low-rate loan to fill a critical gap in the budget and help move this project forward.

Lessons Learned

The HFHC Fund, NMTC, and HFFI programs have been successful at incentivizing grocery store operators to enter low-income neighborhoods, increasing food access in areas where fresh, affordable food options were scarce, and creating new jobs. Some of the elements that have contributed to the success of the program are: a) having strong relationships with flexible funders; b) having grant money to combine with loans to attract new borrowers; and c) using the New Market Tax Credit (NMTC) program to leverage larger projects that include grocery stores in low-income neighborhoods.

Appendix H: Developer Interview Summary

Interviews with developers provided a scan and analysis of success and challenges they have experienced, and still are experiencing in building affordable housing near transportation in Los Angeles County, suggestions about what would incentivize equitable development and what tools might better meet their needs. A variety of developers[30] were interviewed including for-profit market-rate developers with experience in affordable housing, for-profit affordable housing developers, and non-profit community based developers, all active in Los Angeles County.

This summary presents the major themes gleaned from the interviews. It will inform the next step of this study, which will identify potential tools and strategies to incentivize equitable development in Transit Oriented Districts ("TOD") based on an understanding of what challenges, including financing gaps, have the most impact on a developer's ability to develop such projects, and which ones it would be most meaningful to address. This summary reflects the views of developers interviewed; not the opinion of the author.

Overview definitions

- Transit Oriented Districts (TOD) – the term is used throughout the document referring to areas within a ½ mile of current or future rail stops across Los Angeles County

- Affordable Housing – the term is used throughout the document to refer to housing serving families at or below 60% of the Area Median Income, most often primarily financed through the Low-income Housing Tax Credit program with additional subsidies including HUD Section 8.

Guiding Principle

Several developers mentioned that a successful transit system is tied to providing affordable housing around transit stations, and suggested that LACMTA should embrace this as a guiding principle. One developer indicated that it makes sense for him to locate his projects—in particular for seniors—near transit. At the same time, it was acknowledged those while most developers are interested in TOD, none of them are making it a priority—they're mostly opportunistic in selecting sites and follow the subsidies. If LACMTA adopts a goal of encouraging affordable housing development near transit stations, to be successful the agency will likely have to find ways to incentivize it.

Don't ask for a Christmas Tree

Several of the developers interviewed expressed concerns about incentives that would push them to put together projects that don't necessarily make sense in specific markets. One of them summarized this by saying "don't ask for a Christmas Tree" by attaching an unrealistic wish list to development incentives (e.g., land donation, zoning incentives, and financial support); a common example was a requirement to include some retail space on sites where it doesn't make sense. The premise was: know when you have a good piece of real estate and do no harm, i.e. don't impede development by piling requests on it. For sites that are less attractive to most developers but where there might be reasons to incentivize development, the suggestion was to keep it simple and be realistic. The recommendation was to stay away from development plans in which the *primary* aim is to cater to as many constituencies as possible.

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[30] Eight developers and a consultant to market-rate developer were interviewed.

There were many arguments mentioned in support of this point, including: public involvement can add unwarranted complexity, making some deals unfeasible or hardly successful, precious resources can be wasted by trying to achieve too much and not succeeding, it is hard to "pay for the Christmas Tree", especially in a post-redevelopment world.

A suggestion was to prioritize the identification of sites that will have a hard time attracting developers and figure out why they are not appealing. When relevant, the next step would be to design a Request For Proposals (RFP) after assessing the market strength, short and long term needs, and highest and best use of a given site before deciding between rental versus homeownership, luxury versus workforce, retail needs, or between 100% affordable housing and 80/20 projects [31]. Every station, every site is different; options for each one needs to be specifically crafted. One developer suggested it is worth recognizing some sites will mature and might need to stay vacant for a while or be used for temporary "holding" uses.

Mixed-Use Projects

A few of the developers mentioned that they had some experience developing affordable or mixed-income projects with a mixed use, retail component as a result of zoning in place or as a condition for long term soft financing. They had specific examples in mind where retail, including grocery stores, were required in neighborhoods (including in TOD) where "nothing will ever happen" or where the planned retail space (a couple of shops) is not sufficient to create a viable commercial neighborhood that can thrive on its own. Some of the for-profit developers shared their perspective that multifamily over retail might never work in some markets; retail does not necessarily help the economics of a mixed-use project, if ever, so planning for it should be done cautiously. For-profit developers were supportive of letting a few "mom and pop" operators come back to a new development with low rents, even though lenders won't underwrite such rents; however, this used to be done with the support of redevelopment, and there is no obvious alternative funding source at this time.

The non-profit developers shared that they might consider partnering with developers with experience in retail in order to scale it properly (making sure that what is planned is sufficient to make retail successful), design the space and tenant improvements, lease it and manage it. They mentioned their interest in New Market Tax Credits (NMTC), but acknowledge NMTC might not always fit as they work best for larger projects.

Mixed-Income Projects

Several developers, if not all, emphasized that some sites are far easier to develop as 100% affordable rather than mixed-income. Altogether, the developers interviewed had extensive experience with affordable housing and market-rate development, including projects with inclusionary housing requirements. However, few had experience with 80/20 transactions (or other mixed-income projects with 20% or more affordable units eligible for Community Redevelopment Act credits, or "CRA eligible"). All of those with experience with market-rate units stated it is nearly impossible to do 80/20 projects in most markets in Los Angeles County, especially infill projects. These projects are expensive[32] and to make them work there needs to be enough of an upside on the market rents. In most

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[31] 80/20 projects have 20% of the units affordable to households at or below 50% of the Area Median Income (AMI). Mixed-income projects can include a higher percentage of affordable units, but 20% is the minimum required to qualify for Community Reinvestment Act credits (CRA) and as such be eligible to receive capital from CRA driven investors or lenders (see the Summary of Resources Available).

[32] The projects were expensive for a variety of reasons. It should be noted that prevailing wages, in particular when required for tax exempt bond transactions, came up in the discussions with several of the developers. However, it was not the only reason mentioned in relation to how expensive these projects are.

markets in Los Angeles County the market rents are not high enough to make up for the loss of subsidy from going from 100% affordable to 80/20, even when the typical tools for 80/20 transactions, tax exempt debt (bonds) and equity are maximized. These projects would need some kind of mezzanine debt[33] to pencil out. 100% affordable housing, assuming public subsidies are available, might be easier to put together.

At least four of the developers indicated this is also true in urban cores (not the less dense areas only), where sites are expensive to develop but rents are not necessarily much higher than affordable rents. The exception was Santa Monica, where rents are particularly high. A couple of developers suggested that other sites that could work as mixed-income, because the total development costs are low (e.g., markets were a developer could do on-grade parking), might still not work because the market rents are too low (one example was San Bernardino). One developer mentioned that they are looking at 80/20 projects in Orange County, where it is possible to do on-grade parking and keep the development costs low, and the rents are high enough to cover the costs.

There were a couple of comments around "thinking in terms of mixed-income neighborhoods", not mixed-income projects. In some cases, because of the way the financing for these projects is structured, it might be easier to develop two side-by-side projects: one market-rate, one 100% affordable. This makes it possible to optimize the access to LITHC and other subsidies and address the question of the long term operation and ownership of the affordable piece (as the market piece could be sold on its own).

Working with Affordable Housing Developers

One prevalent line of thinking was that housing developers should be allowed to do what they do best. One for-profit developer recommended not pushing market-rate developers to develop affordable housing if they don't voluntarily opt for it; a better option is getting them to partner with a developer that does affordable (whether for-profit or non-profit) housing. Pushing developers to build affordable units when it is not what they want or know how to do "doesn't make anyone happy" and creates new bureaucracies. Additionally, developers clarified the line of demarcation is not between non-profit versus for-profit developers. It was suggested that the focus of discussion should be around a developer's experience with affordable housing, its interest in it, its mission, and knowledge of the public subsidies associated with it.

There seemed to be a consensus that joint ventures might work best for some projects. As for potential market-rate projects with an affordable component, non-profit developers would want to be in charge of developing, owning and managing the affordable units. Some of the for-profit developers have experience with managing the affordable piece. However, even those who are comfortable handling the affordable units shared that it might be easier if the affordable housing piece were handled separately, with different ownership and financing sources. [On a side note, one developer went on to say that it is acceptable to design the affordable units to be smaller than market-rate units in the same structure, but still with a minimum size and basic amenities.] One for-profit developer mentioned involving a community based organization in one of their major affordable housing projects in TOD: The non-profit handled the community outreach, social services, property tax exemption but was not involved in the development, as is fairly typical. The CDC did get an exclusive right to purchase the property, but only because they secured a major piece of financing for the project.

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[33] Mezzanine debt is debt that comes on top of conventional debt, and is priced accordingly. Per example, it will go higher than 75% Loan to Value (LTV), but not as high as equity. This form of debt requires a high fixed rate of return.

There was pushback from for-profits developers on inclusionary housing, based on the observation that affordable units require subsidy (for both development and debt service, noting they barely support operating expenses)—"they need to pay for themselves". One developer suggested "teaming up people and sharing the load", by pooling bad sites and good sites. An idea was to create a "pay in fund" handled by LACMTA: market-rate developers that got access to good sites would pay in, and LACMTA would use the fund to provide subsidies for affordable housing on more difficult sites.

It was noted that an increasing number of non-profit affordable housing developers—although not all of them—are considering market-rate or mixed-income projects as a way to support their organizations with cash flow.

Incentivizing Development

The developers made some suggestions about what kind of support would be the most helpful in terms of encouraging equitable development in TOD, outlined below.

Long Term Public Subsidies

As could be expected, all the developers interviewed emphasized that long term public subsidies (typical construction and permanent soft debt[34]) are crucial to the development of affordable housing, for 100% affordable housing projects as well as mixed-income housing, in particular 80/20 deals. The exceptions are preservation projects (with long term Section 8 contracts) and mixed-income projects with a limited number of affordable units in markets where rents are high enough to pay for the affordable piece; typically, the latter are the result of inclusionary housing requirements imposed by a local government. The fact that a project happens to be located in a TOD didn't seem to make much of a difference, unless the property is in an obviously very strong market (such as Santa Monica).

As an example, two 100% affordable TOD projects in Chinatown and Hollywood were completed because of large infusions of money from the now defunct CRA, the City of Los Angeles (in one case) and the State of California. In particular, the financial commitments from the State as take-out made it possible to secure the financing to acquire the properties: the land was not inexpensive, but the key point was that the developer was able to access it at all. Without the State's and other public funds, the deals would not have happened. It should be noted that both were failed condo projects that turned out to be successful affordable projects. LACMTA was not involved on either of those projects.

Another striking example is the McArthur Park project, a mixed use, 100% affordable project. The first phase was completed with 4% LIHTC, tax exempt bonds, funds from the State of California Housing and Community Department, the City of Los Angeles, the County of Los Angeles (City of Industry) and the Community Redevelopment Agency; the commercial piece was financed with debt and New Market Tax Credits. LACMTA financed the public garage. There was no discount for the ground lease. Most of these resources are now gone, and the project would not be feasible today, without them. Trying to restructure the project as a mixed-income project would not have worked as the market rents are not high enough to fill the gap with equity or mezz debt, or, at least, would not have worked without additional public subsidies or land subsidies.

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[34] The expression "soft debt" refers to financing that is structured as debt (i.e. expected to be repaid) but whose repayment is contingent on a project generating sufficient cash flow. Repayment is due from "residual receipts" or cash flow left after payment of operating expenses and a variety of fees related to the financing sources used for a given project. For deeply affordable projects that do not generate much cash flow, the reality is that the soft debt will be forgiven or extended after many years, subject to long term affordability restrictions for the housing units.

Developers did share their uncertainty with regard to development opportunities in the immediate future with the elimination of redevelopment, expiring state subsidy dollars and cutbacks in other programs. Behind current pipeline projects, it's challenging for affordable housing developers to make remaining funding sources pencil out to complete new deals. All the developers seemed fairly optimistic that new sources of public funding will be identified at some point for affordable housing; however, like most experts, they assume it will take anywhere from 12 to 18 months, at best, at the state or local level. Their answers to the study showed that they are taking the long view in sharing concerns and making suggestions. See the Summary of Resources Available deliverable for a description of the current environment in terms of long term public subsidies.

Land

The developers interviewed clearly identified land as a crucial tool to incentivize equitable development. Writing down the land costs is one of the only tools left to support equitable development and one of the most efficient ones. However, it is typically not sufficient to make it possible to develop difficult sites; other incentives mentioned above or below are necessary as well.

Depending on their profile and past experience, developers made a variety of suggestions:

- Land donation: being able to secure land at a price the project can support, potentially for free;
- Affordable housing requirements for land disposition strategies: give a priority to developers that include affordable housing in their plans;
- Joint Development;
- Land assembly: there was a suggestion that LACMTA should look beyond the land that it owns and also participate in land assembly.

Regarding land disposition strategies, some developers saw them as a way to level the playing field for affordable housing developers (for-profits and non-profits) by giving them a chance to secure the land. Neighborhood-based non-profit developers, who look at affordable housing and community development through a lens of broad-based neighborhood needs, believe that highest and best use of LACMTA land won't be achieved if only the land price is taken into consideration. As a side note, one developer mentioned it is important to be careful with the term of a ground lease for market-rate projects; some terms are not long enough to make it possible to refinance a project. One developer mentioned that they had a good experience negotiating a ground lease with LACMTA, as for the term, upfront capitalized lease payments, but there was no discount; the project worked because it received deep public subsidies. As a side note, the developer mentioned that the involvement of LACMTA's engineering team early in the design process can help working around physical constraints around the stations, and save time and money.

A couple of the developers commented that support to a project in the form of land often leads to the "Christmas Tree" mentioned above, which may or may not lead to smart and realistic development.

On another note, some of the for-profit developers mentioned they have extensive experience with obtaining the land for free (market-rate projects).

Financial Support

Many of the developers interviewed, but not all, indicated that early, patient and affordable pre-development financing is key to development of affordable housing, mixed-income or mixed use in TOD sites. Unsecured pre-development financing or working capital was mentioned a few times: financing to help pay for carrying and holding costs and pre-development costs, especially when the pre-development phase is particularly long[35]. For projects that take a long time to develop, high loan-to-value (LTV) acquisition loans are not sufficient. This applies to all project types (100% affordable or mixed-income), with one exception mentioned below. Unsecured debt is not readily available and equity is expensive. One developer pointed out that it is particularly difficult to raise unsecured pre-development capital on deals when a public agency owns the land and makes it available via a ground lease, or to invest his own funds. Non-profit developers mentioned it would be helpful to have access to recoverable grants. One for-profit developer indicated early pre-development financing wouldn't make a difference, except for projects that are particularly difficult (Hope VI, for example, as so much of the risk is beyond the developer's control). He felt he had sufficient access to equity. Another comment was that pre-development financing would not be sufficient to attract developers who wouldn't be able to develop a site without it in the first place. More specifically, some of the developers shared that looking at pre-development financing to incentivize equitable development can make sense for some projects, considered on a case by case basis. There is no rule of thumb that such assistance would encourage development, let alone equitable development.

In regards to market-rate projects with less than 20% affordable units, developers experienced with these properties indicated that any public involvement in market-rate transactions needs a long term play. A program providing financial subsidies won't revolve, as in most cases the subsidy won't be recoverable. If nothing else, the public entity should assume it will not be. The repayment will have to be subordinate to address the concerns of the equity investors. The difficulty for market deals is "how to extract it out"? There might be some speculative value after 15 years, but typically not much. Financial support might need to be structured as to be a grant in exchange for keeping the affordability (with return provisions).

Acquisition financing was mentioned only in so that long term financing is needed (4 years and above); the capital has to be patient, with realistic expectations in terms of identifying the take out. However, developers didn't discuss how well the newly created GSAF (terms up to 5 year) or NGF as restructured (now likely to extend to 4 years) addresses their needs.

Miscellaneous

One developer suggested LACMTA help by offering free transit passes, as those make affordable housing projects score higher for some public subsidies.

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[35] The pre-development phase represents the early stages of a project, the most risky phase, as there is still a lot of uncertainty regarding the likelihood a project will be successfully completed. Typically, for-profit market-rate developers consider that pre-development ends once they have secured the entitlements. Affordable housing developers consider that pre-development stops once they have secured the entitlements and commitments for the public subsidies they need to fund the construction and permanent phases of a project (since those are highly competitive). Pre-development financing typically comes on top of acquisition financing and is under secured by the real estate (high Loan to Value ratio) or unsecured – this means that this financing piece would be first in line to take a loss if a project fails.

Density

Although LACMTA does not have jurisdiction over density issues, there was a recommendation for higher density or height rules for affordable housing in TOD sites and the option of an in lieu fee for market-rate developers. Many developers mentioned density as a way to incentivize equitable development. Some developers highlighted that density helps make the numbers work, which is key to successful mixed-income projects in particular. They indicated density is more important to project viability than whether more or less than 20% of the units are affordable. A density bonus may help to achieve a positive balance.

Several respondents said that the most effective place for affordable housing is near other public infrastructure. One respondent said that affordable units are needed to achieve and warrant density; further, that it's a disservice not to include affordable units near transit, as transit provides an affordable means of transportation for low-income people. More specifically, it was suggested that up-zoning be tied to the provision of affordable housing, with the Cornfields Arroyo Seco Plan sited as a good example of this. Neighborhood-based non-profit developers suggest that the push for density has to be balanced against neighborhood characters and needs. Preservation of existing uses may be a priority for the community.

Infrastructure Financing

To achieve the benefits of TOD with high ridership and a mix of housing, commercial, and public space, investments in infrastructure are generally needed to attract new development —either additional infrastructure is required to support new uses or to make a location attractive for developers, residents, and workers.

Very few developers interviewed had comments about infrastructure, other than it is assumed that the MPO or another entity is paying for the "extraordinary" infrastructure costs. The "typical" infrastructure costs are not an issue. However, most of the developers interviewed have not done large scale projects that would require infrastructure investment beyond "typical" infrastructure cost. That said, the one developer who has done larger scale TOD development emphasized that LACMTA support for infrastructure should be considered essential, and likely a more efficient way for LACMTA to support equitable development, rather than getting involved as a financing partner in the development. He qualified his comment by adding he was referring to "true TOD sites" (i.e. within ¼ mile of a transit station). Another one indicated that it clearly makes sites attractive to put them on par with others by doing the infrastructure work upfront. At least one developer mentioned that the State of California's program for infrastructure financing, funded by Prop 1 C was not successful. It would appear that for large scale development that directly integrates with transportation, infrastructure financing is critical for equitable development *and* market-rate. However, it may not be as critical for smaller developments where infrastructure, for the most part, already exists.

Financial Support to Businesses

The importance of jobs was broadly acknowledged, in addition to housing, and the need for mixed use development. Non-profits may see an opportunity and need for inclusion of businesses in a mix-use, potentially mixed-income projects, but may not have the capacity to handle marketing, leasing and doing built-out for these businesses. They need assistance in the process or capacity building to take it on themselves.

It was suggested, as a business preservation strategy, that financial support be provided to small local businesses (i.e., temporary rental subsidy) that move into newly developed and more expensive space, as a way to preserve existing uses. Redevelopment used to provide some options for financial support, but there is no replacement for it identified yet.

De facto Affordable Housing

Only one of the developers interviewed expressed any particular interest in small or mid-size properties that are de facto affordable but without restrictions. The developer and others outside of the context of the interviews consistently note that it is extremely difficult to compete for existing operating properties in the current market environment, especially when they are large enough to represent a good investment. These properties represent a large portion of the existing affordable housing stock, not always in good condition. Depending on circumstances, it might make sense to redevelop them, adding density, or to maintain them as they are. As these properties are often at the heart of discussions around gentrification and displacement, it might be worth further researching tools that could help rehabilitating them, as needed, and keeping them affordable, with or without restrictions.

Community Engagement in the Development Process

One non-profit developer indicated that community engagement is needed in the development process, as the development of transit corridors will be transformational for the affected neighborhoods. Although it is not necessary to do everything requested by the community, it is important to show respect for community input and concerns.

Interview Takeaways

Based on the developers' feedback, major tools that could incentivize developers to develop affordable housing, mixed-income or mixed use projects are:

- Long term public subsidies (long term "soft financing")
- In a post redevelopment environment, and with deep reductions in federal and state subsidies, this is arguably the most challenging piece. Not surprisingly, developers confirmed these subsidies are key for:
    - 100% affordable projects in all markets, except potentially in markets where the rents can be set at 60% AMI versus lower rent restrictions, and can support more conventional debt.
    - Mixed-income projects, unless there is a clear upside on market rents. This would apply only to the strongest real estate markets in Los Angeles County – developers seemed to think this includes mainly Santa Monica, maybe Culver City.
    - Mixed- use projects, unless the market for the commercial piece is strong on its own.
    - Market-rate projects with an affordable housing inclusionary requirement, again, unless the market rents are strong enough to support the affordable piece without affecting the return expected by investors.

The next step in the study will make recommendations on what type of projects it might make sense to support in an environment with insufficient long term public subsidies, and what type of projects to support taking the long view that new subsidies may be put together in the not-too-distant future.

Opportunities around land: land disposition and joint development strategies will be explored in further detail in subsequent deliverables of this study. Potential land assembly strategies will be further explored in the next step of the study.

Providing early and patient capital for pre-development, in the form of debt or equity. This seems to be the key for all projects types, but the need varies depending on the market: pre-development financing is less of an issue when a market is strong enough to attract well-capitalized developers. However, if the goal is to incentivize specific developers (community-based non-profit developers or smaller for-profit developers) to develop a project because of their expertise or community standing, there is a need for pre-development financing even in strong markets. It should be noted that some developers identified that this had been a gap even before redevelopment agencies were dismantled.

The next step in the study will focus in particular on the pre-development financing gap, which was identified in the summary of available resources as well. Still, the next step will pay attention to the developer's comment (see above) that providing affordable and patient pre-development financing is a tool to use carefully, only when it is really needed: when a market is particularly weak, when a specific developer, who happens to be the best choice for a specific project, has no access to capital, or when a project is particularly complex and risky. In light of the developers' comments, the likelihood that financial support to pre-development can be recovered will be discussed as well.

Joint Ventures –instead of trying to make developers develop projects they are not comfortable with, rely on their strength and experience, and team them up with the right partners. The next step in the study will provide some suggestions on this topic.

The developers' point regarding the "Christmas Tree" is important to keep in mind. When a site is a good piece of real estate and is attracting developers, do no harm. On any given site, no matter the strength of the market, piling on many requirements to please different constituencies, ignoring the reality of a market, might lead to disappointment. With some variations around what makes sense in different communities, most developers might agree with those points.