Financing Equitable Transit-Oriented Communities in the Sacramento Region

EXECUTIVE SUMMARY

Compiled for

Sacramento Housing and Redevelopment Agency
Sacramento Area Council of Governments

and the

Sacramento Transit Oriented Development Collaborative
This research and set of recommendations were made possible by a Challenge Grant to the Sacramento Housing and Redevelopment Agency from the U.S. Department of Housing and Urban Development’s Office of Sustainable Housing and Communities. The Sacramento Housing and Redevelopment Agency oversaw the work for the Sacramento Transit Oriented Development Collaborative. Contributors to this project include:

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Sacramento’s stable jobs base, mild climate, central location and low relative cost of living in a major California region are significant attractors to new residents and businesses to the region. By 2035, the population of the greater Sacramento Region is expected to increase by 39%, from 2.3 million to 3.2 million people, creating a need for 300,000 additional homes and 300,000 new jobs. As part of this growth many communities are forecasted to evolve into more lively commercial and residential hubs. Thus, now is the time to think carefully about how they will grow and to prepare for a preferred future where all individuals and families have access to opportunity. The benefits from household, business and policy perspectives for creating equitable transit-oriented communities are numerous. They include:

- Access to economic opportunity by connecting people between homes and jobs along the transit lines,
- Improvements for the environment, mostly via reduce vehicle-based greenhouse gas emissions as called for in the region’s ‘Blueprint for Sustainable Communities’ (Sustainable Communities Strategy), and
- Groundwork for healthy, active living by encouraging walking and biking as well as more time in a community than between places.

However, if not planned and implemented carefully with market realities in mind, these districts will be not cohesive neighborhoods, they’ll simply be clusters of buildings with sidewalks. Or worse, they will be neighborhoods that only serve the well-off, pushing low-income people further away from the amenities they especially need for healthy and prosperous lives. By taking the time to consider how the Sacramento Region’s growth and assets can be harnessed to create transit-rich neighborhoods that genuinely serve everyone, it ensures that the region can continue to be home to a diversity of people.

The Sacramento Area’s Need for Equitable Transit-Oriented Communities

Equitable transit oriented communities are places that provide choices for residents at varying price points by offering safe, walk able streets, comfortable access for bicycles and transit, connections to major employment centers and other regional destinations, and a gracefully compact mix of housing types and commercial. In combination, these great neighborhoods encourage increased transit ridership and provide ways to access daily goods and services. While there is no “one-size-fits-all” approach to Equitable Transit-Oriented Development (eTOD), vibrant transit-oriented communities often include a range of development types, and may include a significant increment of new development or enhancement of existing uses with investments in public infrastructure and community amenities.

There are many ingredients for making great neighborhoods. Affordable housing is one that takes center stage in the initial stages of filling in and improving existing communities or creating new communities because if affordable housing properties are not secured, the land economics predictably prohibit its development in later stages of creating complete communities. According to the state-mandated Regional Housing Needs Allocation, by 2021, 58% of new housing units across the
Sacramento Region (over 61,000 units) will need to be affordable to very low-, low-, and moderate-income households. To make these communities successful, additional items are needed – new or enhanced bike and pedestrian connection to transit stops, a place to buy fresh foods and other essential groceries, a community health clinic, an attractive place for children to play safely, etc.

What Do Sacramento Area Developers Need to Work In and Create Transit Oriented Communities?
Developers in the Sacramento Region are fairly consistent in their concerns about the policy and financial barriers to working in and creating transit-oriented communities. Yet despite frustrations, it is still desirable for many developers to build infill homes because there is increasing market demand. The following list identifies the current and primary financial gaps:

1. Early predevelopment forgivable and/or very low-interest loans;
2. Infrastructure and remediate sources of funding that do exist are very limited;
3. There is not a funding source for acquisition that lends itself well to long term holds;
4. Debt/equity combination for acquisition or rehab opportunities does not exist. Developers can access debt, but often not at the loan to value, interest rate or length of term that they need;
5. Previously, California offered enough additional subsidy, primarily through Redevelopment Agencies, to make production and preservation possible through both the 9% (competitive, deeper subsidy) and 4% (less competitive, shallow subsidy) Low-income Housing Tax Credits. A new permanent source is sought.

Financing Transit Oriented Communities
Before figuring out how to finance equitable transit oriented communities with existing and new funding sources, we need to figure out where the neighborhoods with the promise to become mixed-income neighborhoods are located. These promising neighborhoods should 1) be key to the transit system as existing or emerging residential or job hubs; 2) take stock of the assets located there; 3) discern what distinct things the community members want; and 4) build broad support for the development visions. Several key considerations need to be made when determining which neighborhoods are best suited for TOD financing:

1. Transit and Neighborhood Orientation – What is nearby? What community amenities could be leveraged here? Remember that some transit stops are in locations too far from amenities to be competitive for 9% LIHTC and other subsidies. Consideration of things including nearby schools, parks and public space is also helpful.
2. Market Strength – Can the market support more development here? What mix of commercial vs. residential is wise? Will there be demand for market-rate units that can offset affordable unit construction? What nearby attractions can stimulate developer interest?
3. Land Capacity – What are the existing conditions of the land? What is it zoned for? Who has control of the properties? Is greater density feasible for this community? If so, how can new homes be incorporated so that the local businesses are supported?
4. Community Need and Support — What is needed to make this area a complete community? Who can we engage with to ensure that residents of all incomes have access to employment centers and community services? Do any proposed developments align with HOME and PB S8 programs?
Assuming these criteria are considered and well planned for, aligning existing resources and creating new ones will be logical and effective.

Financing Development through TOD Funds
Wisdom from other metropolitan regions shows that successful TOD Funds must be tailored to reflect the need of local developers and the interests of investors. TOD Funds are often referred to as “double bottom line” or “socially responsible” investments, and exist on a spectrum from grants—where no financial return is contemplated—to market or near-market rate investments that also have a positive community impact. The instruments vary widely in terms of their risk – return profiles, and the nature of their investors. Most double bottom line funds, for example, are equity funds that make direct investments in projects, and many expect a “market rate” return. These funds are typically designed to take advantage of market imperfections that lead many investors to overlook communities that are suffering from disinvestment but where there are, in fact, good investment opportunities that have the potential to achieve market-rate returns. At the other end of the spectrum are grant programs, which do not require repayment, and have no return expectations. The Sacramento Region needs both.

Imagining Take STOC – Sacramento Transit Oriented Communities Fund
To be effective, the focus of any new financial tool should be to complement what already exists and remove financial barriers to development. To that end, the team conceived of and has worked with the Equitable TOD Collaborative to refine what a financial tool would be. The team concluded that the current needs and conditions of the Sacramento Region call for a development tool that combines specific planning as well as pre-development, infrastructure, remediation loan funds and/or a tool that would establish a credit-enhancing fund to complement existing acquisition financing for TOD. At this sketch stage, we will refer to it as the Take STOC Fund (Sacramento Transit Oriented Communities Fund).

The primary goal of the imagined Take STOC Fund is to catalyze the creation and preservation of truly affordable housing and community facilities near transit. A secondary goal for the Sacramento Area Equitable TOD Collaborative is to nurture the market trend of living near and using transit within the Sacramento Region. The Equitable TOD Collaborative intends to cultivate this commitment to equitable development and transit usage by developing models of high quality, mixed income and transit oriented communities that inspire others to pursue similar development and planning goals. The capital that would be structured in Take STOC would have two parts – one that is a grant pool and another that would be an equity-like loan product. The latter would potentially be lent to developers at a modest level of interest, but otherwise taking the risk along with them.

To support these activities, Take STOC Fund manager(s) would seek investors who can contribute forgivable, non-recourse funds between $500,000 and $10 million with an expectation of 0% to 2% rate of return over 10 years. The Fund could then blend a variety of regional funding and corporate resources to jumpstart the creation and preservation of affordable housing and community facilities in California’s Sacramento Region. Various parties could access the Take STOC Fund, including government, quasi-government, land banks, and for- and non-profit partner holding organizations, developers, and combinations thereof.
How Would A Take STOC Fund Work?

First, Take STOC will need at least one lead equity investment(s) to attract the other types of investors. Then it needs a home and an entity to attract additional investors, manage the fund, its legalities and the decision making processes, and communications and reporting about the fund’s progress. This could be an agency or a nonprofit organization such as a CDFI or an organization with the right skill sets. Perhaps the grant making aspect of the fund could be handled by one entity with close coordination with another that handles the lending. Next steps include developing criteria about where to prioritize initial investments (what TPAs and/or transit corridors); what level of investments will be available; and which team qualities and capacities are essential for practical planning and successful implementation in the TPAs.

The following sketch was introduced by the team to the Equitable TOD Collaborative at its July 2013 meeting and continues to represent the parts imagined for Take STOC.

Accordingly, there are three key steps for successful management and operation of Take STOC.

**Step 1: Team Planning Grants**

Up to six (6) grants awarded per year totaling up to $3 million for a (18) month period to teams working in places with the following criteria: 1) Neighborhood Criteria such as Transit Priority Area, mixed income population or low-income population, access to quality jobs, and high or low opportunity area via Kirwin Institute; 2) Planning Team Criteria such as ability to make decisions/political clout, and each team member’s skill contribution (Banker, lawyer, planner, employer, etc.); and 3) What makes Neighborhoods and Teams Competitive?
**Step 2: Low interest, patient loans**
Up to four (4) loans awarded per year totaling up to $16-20 million for a (10) year period to team working in places with the following criteria: 1) **Property Criteria** such as the quality of transit access, the existence of a catalytic site that will lead to additional investment in a neighborhood, alternate uses or potential for multiple project configurations (e.g. mixed income, mixed use), the neighborhood is part of a larger corridor plan, connected to comprehensive development of the neighborhood, and increasing, stable or declining real estate submarket; 2) **Project Criteria** such as financial feasibility, the amount of subsidy needed, and the alignment with funding priorities (local and state), 3) **Borrower Criteria** such as organizational capacity, financial strength, and experience doing TOD or urban large infill projects.

**Step 3: Completion Grants**
Up to ten (10) grants awarded per year totaling up to $10 million for a (18) month period to team working in places after main construction is completed with the following criteria: **Project Criteria** such as what level of soft or hard commitments does the team have from key financing sources, near term possibility of financing assembly and construction start, and sufficient public official and community support.

**Recommended Next Steps: Implementing a Vision for Transit Oriented Communities in the Sacramento Region**
Making the most of Sacramento’s transit system and achieving the critical quality of life outcomes outlined in the region’s Blueprint for Sustainable Communities requires a range of investments beyond catalyzing affordable housing near transit in a handful of locations. The proposed Take STOC Fund and the following recommendations lay the groundwork for addressing the range of financing and supportive planning tools that are needed to help focus planning efforts.

**Policy**
1. Develop a system for prioritizing all TOD related investments;
2. Remove policy and zoning restrictions that stall or prohibit TOD;
3. Align SACOG’s programs to better support planning and early predevelopment –infrastructure, site assembly, safety issues; and
4. Conduct outreach with key policy makers and other regional leaders to continue to educate these critical actors about equitable transit oriented communities and ways in which policy support can create effective investments around transit in the coming years;
5. Increase transit access to job centers and housing concentrations. Consider low cost options such as BRT, last-mile connections and improved bike and pedestrian routes. Also look into subsidizing transit passes in key areas for affordable housing properties.

**Land**
6. Understand inventory of publicly owned land, particularly RT properties, and the long term hold and release strategy for equitable development;
7. Define an implementation framework for the range of investment opportunity areas;

**Finance**
8. Identify a fund manager(s) and develop the governance appropriate to the mission, uses and investors of the fund;
9. Raise capital and structure a financing mechanism to reflect the goals of the Equitable TOD Collaborative and the investors.
10. Establish a competitive grant program (~$5 million for teams to conduct planning at 3-6 key transit nodes and $10 million for key projects that will help complete equitable transit-oriented communities once development is underway);

11. Establish a loan product that achieves credit enhancements to the Golden State Acquisition Fund in order to create reliability of take out sources, including clean up, infrastructure and permanent finance resources; and

12. Test long term financing options – invest in a few high value opportunities and look at FP 4% LIHTC developer models that have been replicated across the region and figure how to make them work near transit.

**Partnerships & Knowledge**

13. Continue to work with members of the Equitable TOD Collaborative, as well as other stakeholders as necessary, to begin aligning the resources necessary to support equitable TOD in both weak and strong market locations, including helping some build capacity to construct complex infill projects. In particular, deepen the capacity and relationship with Regional Transit; and

14. Deepen the fund manager’s familiarity with the region’s development community and awareness of national financing trends, so he/she can discuss the Take STOC Fund with prospective government, philanthropic, healthcare, and financial partners in order to identify a long-term regional champion.

Once these steps are completed, stakeholders and investors should have a much clearer path to creating and using an effective financing system together. Doing so will provide the opportunity for the excellent planning that has been done for the region’s growth to be implemented.