Financing Equitable Transit-Oriented Communities in the Sacramento Region

Compiled for

Sacramento Housing and Redevelopment Agency
Sacramento Area Council of Governments

and the

Sacramento Transit Oriented Development Collaborative
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Cynthia Abbott, US Dept. of Housing and Urban Development
Cassandra Angello, Farmers and Merchants Bank
James Beckwith, Five Star Bank
Bernadette Austin Bower, Domus Development
Marti Brown, North Franklin District
Traci Canfield, Sacramento Regional Transit
John Chan, US Bank
Joe Concannon, Sacramento Area Council of Governments
Rosemary Covington, Sacramento Regional Transit
Cathy Creswell, CORE/Sacramento Housing Alliance
Stephan Daues, Mercy Housing Corporation
La Shelle Dozier, Sacramento Housing and Redevelopment Agency
Monica Hernandez, Sacramento Area Council of Governments
Jesus Hernandez, UC Davis
Meea Kang, Domus Development
Diane Littlefield, Sierra Health Foundation
Marie Mazwi, US Dept. of Housing and Urban Development
Jim McDonald, City of Sacramento
Mike McKeever, Sacramento Area Council of Governments
Nancy McKeever, Strategic Growth Council
Debbie Muramoto, California Capital
Alysia Nordberg, Mogavero Notestine
Tom Pace, City of Sacramento
Sandy Piekarzki, Sacramento Housing and Redevelopment Agency
Jeff Riley, Mercy Housing Corporation
Judy Robinson, County of Sacramento
Geoffrey Ross, Sacramento Housing and Redevelopment Agency
Scott Syphax, Nehemiah Corporation
Tien Christine, The California Endowment
Kirk Trost, Sacramento Area Council of Governments
Greg Wessel, Sacramento Housing and Redevelopment Agency
Clarence Williams, California Capital

Dena Belzer, Strategic Economics
Allison Brooks, Reconnecting America
Amanda Gehrke Strategic Economics
Bill Sadler, Reconnecting America
Abby Thorne-Lyman, CTOD
Elizabeth Wampler, Reconnecting America

Heather Hood, Enterprise Community Partners
Melinda Pollack, Enterprise Community Partners
Noni Ramos, Enterprise Community Loan Fund
Orissa Stewart-Rose, Enterprise Community Partners

Brian Prater, Low-income Investment Fund

For more information, please contact:

Geoffrey Ross, Sacramento Housing and Redevelopment Agency, gross@shra.org

-or-

Heather Hood, Enterprise Community Partners
hhood@enterprisecommunity.org

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Financing Equitable Transit-Oriented Communities in the Sacramento Region

EXECUTIVE SUMMARY 2013

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, walkable 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.
SUMMARY OF INSIGHTS AND RECOMMENDATIONS

In winter 2013, the Sacramento Housing and Redevelopment Agency, the Sacramento Area Council of Governments and the Sacramento Equitable Transit-Oriented Development Collaborative engaged a consultant team. The group included city planners, economists and community development finance experts that would assist the Sacramento Equitable TOD Collaborative in creating a business plan for a Transit-Oriented Development (TOD) finance tool. With this consultant team, the Equitable TOD Collaborative has spent the past ten months conducting extensive research to discern the market, need, barriers and opportunities for creating more neighborhoods oriented to transit usage in the Sacramento Region. The Equitable TOD Collaborative also investigated a variety of TOD financing models from around the country, and is creating a business plan for a financial tool that specifically fits the region’s needs. This report summarizes four reports to date, provides fourteen actionable recommendations for how the Equitable TOD Collaborative can advance equitable development near transit and outlines the structure of a TOD Fund.

Transit-Oriented Communities in the Sacramento Region
Sacramento’s stable jobs base, mild climate, central location and low relative cost of living in a major California region are significant magnets to new residents and businesses. By 2035, the population of the greater Sacramento Region is expected to increase by 39%, from 2.3 million to 3.2 million people. In particular, transit-oriented areas throughout and around downtown Sacramento like the Railyards and West Sacramento, the north Natomas corridor, Sacramento State, Rancho Cordova and the Hazel/Easton area are forecasted to grow into more lively commercial and residential hubs. The benefits from household, business and policy perspectives for creating transit-oriented communities are numerous. They include:

- **Access to economic opportunity** – Neighborhoods that provide access to affordable and convenient housing and transportation choices create greater social and economic opportunity for residents. These neighborhoods ensure individuals’ connections to the region’s businesses and services – especially important in a time where many existing and future job centers are located close to public transportation hubs – and link residents and businesses to vital commercial and recreational resources that support social well-being.

- **Improvements for the environment** – Studies show that compact developments with transit choices are an extremely effective way of reducing vehicle miles traveled (VMT) and in turn, greenhouse gas emissions. If homes are situated in communities that have efficient public transit people are likely to drive less; in some cases families even give up their cars, particularly low-income families. Intensifying densities of existing neighborhoods along the region’s transit corridor also advances the region’s goal in its Sustainable Communities Strategy (SCS), ‘Blueprint for Sustainable Communities,’ to reduce vehicle-based greenhouse gas emissions while also accommodating new population growth.

- **Groundwork for healthy, active living** – Homes in close proximity to destinations like stores, services and public transportation have been strongly associated with residents walking and bicycling – an activity that is an important aid in can decreasing residents’ risk of obesity. A recent California study found that for every hour spent each day in a car, a person’s risk of being obese increased 6%, while obesity risk decreased 5% for every hour walked each day. *Getting Involved in Transportation Planning: An Overview for Public Health Advocates, Public Health Law and Policy, and TransForm, 2011.*
country about 92% of all trips are made by automobile, and the average person spends 443 hours in a car each year.

Despite these benefits, there are a variety of barriers to realizing transit-oriented communities in the Sacramento Region (as in many regions around the country). They include: few examples and case studies that are familiar to actors in Sacramento; decreased opportunities for public investments since the loss of Redevelopment Agencies; zoning policies and financing shortfalls that beset developers; regional planning entities with reduced budgets; and community objections to infill development. Fortunately, the Sacramento Region’s potential to overcome these challenges is high thanks to the new and existing rail and bus lines, growing economic base, promising neighborhoods, and leadership from various sectors.

**The Need for Equitable Transit-Oriented Communities**

Equitable transit-oriented communities provide choices for residents at every income level while incorporating the same set of urban design, development, and investment activities as traditional TOD. These neighborhoods offer safe, accessible streets for pedestrians, bicycles and transit, connections to services and employment centers, and a gracefully compact mix of housing types and commercial uses. Making TOD successful and equitable in Sacramento is a long-term process that requires laying groundwork early. One must consider where the region’s low-income residents will live, what types of homes they will occupy (owners and renters, range of bedroom sizes, etc.) and increase opportunities and access to amenities such as fresh food, quality education, workforce training and health care.

Market research shows existing need for equitable TOD in Sacramento. Throughout the region, low-income households make up the greatest percentage of the population living within a half mile of existing and future transit station areas. Of those, 27% of residents in transit station areas earn less than $25,000 per year, compared to 18% in the region as a whole. And according to the Regional Housing Needs Allocation (RHNA), 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.

There are many ingredients for making communities complete and equitable. Housing typically takes center stage in community infilling or improvement projects because if affordable housing properties are not secured, the land economics predictably prohibit its development later on. However, these communities also need new or enhanced bike and pedestrian connections to transit stops, nearby grocery stores and attractive places for children to play safely. Paramount to this all is thoughtful examination of the ways in which public and private investments in TOD will be inclusive of low and moderate-income households. Accordingly, the team’s recommendations and business plan reflect a goal to work on all aspects of equitable transit-oriented development (eTOD).

**What Challenges Do Developers Face and What Do They Need to Create Transit-Oriented Communities?**

To understand the current development context from a financial perspective, the team conducted interviews with developers and other key actors on project financial feasibility. The team also looked at the financial barriers inhibiting the development of affordable homes near existing transit nodes in the

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2 Derived from the TOD Database using American Community Survey 2005-2009 data. Note that SACOG’s estimate for median household income includes the Yuba City/Marysville MSA, so it is lower at $55,151.

3 RHNA is a state mandated program that requires the Sacramento Area Council of Governments to set goals for affordable housing that each city must meet in its housing element.
region – an issue Sacramento area developers are generally concerned about. Despite frustrations and barriers, it is still desirable for many developers to do so because they recognize there is increasing market demand to live in proximity to transit resources. The main take-aways from our interviews include:

1. There is insufficient local policy support for affordable housing near transit.
2. Developers, especially market rate developers, feel reluctant to invest in nodes that lack significant signs of public infrastructure and public place investments.
3. Affordable housing developers cannot secure land in advance of project financing or acquire unrestricted affordable housing to make it permanently affordable.
4. Properties are costly.

The primary financial gaps and challenges identified in developer interviews include:

6. Need for early predevelopment forgivable and/or very low interest loans;
7. Existing infrastructure and remediate sources of funding are very limited and often held by agencies unfamiliar with community developers and/or unlikely to support affordable housing projects.
8. No existing funding source for acquisition that lends itself well to a long term holds. (While SHRA is still doing some land purchase and procuring consultants, project activity is very limited. With these, SHRA will handily continue to identify where public and quasi-public owned land exists and will negotiate land discounts and sales).
9. No existing debt/equity combination for acquisition or rehab opportunities. Developers can access debt, but often not at the loan to value, interest rate or length of term that they need to make equitable TOD feasible. Equity sources for affordable housing do not exist or if they did, would be at rates unachievable of for affordable housing.
10. With the end of Redevelopment Agencies, developers place a higher burden on greatly limited secondary subsidy programs to make both 9% (competitive, deeper subsidy) and 4% (less competitive, shallow subsidy) Low-income Housing Tax Credit types happen, with the 4% credit largely being relegated to rehabilitation going forward. This also creates a higher burden on the already overstretched (and declining) HOME, CBDG and Section 8 programs to fill the financing gaps.

**Financing Transit-Oriented Communities**

A wise way to build off of robust neighborhood visioning processes and to *actually implement* the resulting plans for improvements and infill development is to address the financing needs developers express. This can be done by aligning existing financial tools and creating new ones. Currently, there is a confluence of forces that make creating a financial tool opportune:

1. The opportunity to leverage and accelerate the momentum that Transit Priority Area processes achieve;
2. The scarcity of neighborhoods in the Sacramento Region that are truly affordable for low-income households when the combined cost of housing and transit are considered;
3. The severe shortage of land available for development near transit nodes;
4. The intense development pressure that is unlikely to support equitable TOD with affordable homes;
5. The successes and wisdom gained by groups building and operating similar funds around the country; and
6. The growing and serious interest by potential investors and users of ‘TOD Funds.’
TOD funds are one type of tool; they are structured loan funds that address a specific region’s financing gaps and ensure that equitable TOD is built, not just planned. A range such of financial instruments have been developed with the intention of producing not only financial returns, but also benefits for affordable housing, the community and the environment. These instruments are often referred to as “double bottom line” or “socially responsible” investments, and exist on a spectrum from grants to market (or near-market rate) investments and vary widely in terms of their risk –return profiles, and the nature of their investors.

A ‘fund’ is a pool of money set aside for specific kinds of investments, usually with contributions from multiple investors. Funds with goals beyond profit vary widely in terms of their goals, activities, and funding sources, and include double-bottom line funds (DBL), community loan funds (CLF), and other kinds of investment and loan funds. 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 scale are grant programs, which do not require repayment, and have no return expectations.

The team has shared models of such financing with the Sacramento Equitable TOD Collaborative. Some of the highlighted models that it will likely seek to follow over time include:

- The $15 million Denver TOD Fund, seeded by the City of Denver, Enterprise, the Urban Land Conservancy, Colorado’s HFA and a coalition of foundations, banks and CDFIs. This effort is now in its third year and has a pipeline of over 600 homes and several community facilities, several under construction. The Denver region is important because of its comparable size and results in a resource constrained environment. See Appendix 3 for further detail.
- The $50 million Bay Area Transit Oriented Affordable Housing Fund (TOAH), seeded by the Metropolitan Transportation Commission and a network of foundations, banks and CDFIs. This effort continues to build a pipeline across the highly competitive San Francisco Bay Area. The Bay Area is important because of its proximity, the shared interest of many stakeholders in both the Bay Area and Sacramento Regions, and the innovative leadership of a regional agency in seeding the effort. Since its inception in 2011, because of the efficacy of the TOAH Fund, MTC has made an additional grant of $10 million to this fund in 2013.
- Los Angeles County benefits from access to various acquisition funds – including a City fund and a County fund. The consultant team recently completed a study for the LA region’s transit agency and two major foundations (which also have Sacramento interest), with a similar scope to the work undertaken for the Equitable TOD Collaborative in Sacramento. The team’s findings were very similar to those described herein. Particular similarities to the Sacramento Region were that Los Angeles County can focus on better aligning use of its funds through policy in order to tee up a long term pipeline of useable publicly owned land, and ultimately get the best return for its investment by complementing existing sources of funding through filling major gaps in the early stages of the development process.
- The Golden State Acquisition Fund (GSAF) provides a flexible source of capital for the development and preservation of affordable housing properties. Developers can access acquisition financing for rental housing and homeownership opportunities at favorable terms for urban and rural projects statewide. Nonprofit and for-profit developers, cities, counties and

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other public agencies within California are all eligible for GSAF financing. The California Department of Housing and Community Development (HCD) seeded GSAF with $23 million from its Affordable Housing Innovation Fund, which serve as 25% top-loss for GSAF loans. These funds are leveraged with additional capital from a consortium of seven community development financial institutions, which are originating lenders for the funds provided by HCD are from Proposition 1C, the Housing and Emergency Shelter Trust Fund Act passed by California voters. This fund will be complementary to any tools created for the Sacramento area.

Take STOC – Sacramento Transit-Oriented Communities Fund

When devising its own tool, the Sacramento Equitable TOD Collaborative should look to the existing state, regional and city level private, CDFI and government sources for the development of affordable housing and community facilities. 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 on refining what a financial tool would be. The group concluded that the current needs and conditions of the Sacramento Region call for a development tool that combines specific planning as well as funds for pre-development/infrastructure/remediation loans, and/or a tool that would establish a credit-enhancing fund to complement existing acquisition financing for TOD. Although greater research is needed to determine the specifics of this financing mechanism, this tool will henceforth be referred to as the Take STOC Fund.

The Sacramento Equitable TOD Collaborative will explore and refine Take STOC in order to realize the primary goal of stimulating the creation and preservation of affordable housing and community facilities near transit. An additional goal for the Sacramento Area Equitable TOD Collaborative is to lift-up TOD within Sacramento by modeling high-quality, equitable TOD. Beyond these direct outcomes, a well-conceived and managed Take STOC fund could also create a model for collaboration across public, private and philanthropic sectors and effectively advance environmental goals (GHG and VMT reduction), job creation, and improvements in human health. The capital that would be structured for Take STOC would have two parts—one that is a grant pool and another that would be an equity-like product. The latter would potentially be lent to developers at a modest level of interest, but otherwise taking the risk along with them.

Once formalized, the Take STOC Fund could support the management of pre-development expenses, complement remediation and infrastructure funding, and support the Golden State Acquisition Fund or other pre-development loan funds by buying down the cost of capital interest rates and closing loan-to-value gaps. To support these activities, the Fund managers would need to seek investors who can contribute forgivable, non-recourse funds between $500,000 and $5 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 the Sacramento Region. Various parties could access the Take STOC Fund, including government, quasi-government, land banks, for- and non-profit partner holding organizations, developers, and combinations thereof.

Developing Take STOC

Be thoughtful: It is important to not skip steps in the process of creating financial tools. Any process that depends on the interplay of policy, investors, market trends and strong cross-sector partnerships relies on trust and a defensible, believable set of thinking about how priorities are set. Moving forward, there needs to be more sifting through priorities—such as geographies. It will also be important to give more thought to which interventions would make the most sense in different types of transit-oriented
Focus on select areas: The Equitable TOD Collaborative can have a tremendous impact on regional equity if new development is focused around select Transit Priority Areas (TPAs). Because 71,000 new housing units will need to be constructed in the region’s TPAs by 2035, strategic identification of TOD sites is critical. When identifying communities to focus on, we must consider:

5. **Transit and Neighborhood Orientation** – What is nearby that can be leveraged?
6. **Market Strength** – Can the market support more development here?
7. **Land Capacity** – What are the existing conditions of the land? What is it zoned for?
8. **Community Need and Support** - What is needed to make a complete, safe community?

**How Would A Take STOC Fund Work?**
First, Take STOC will need a lead equity investment(s) to attract the other types of developers. 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 like CADA. Some aspects of the fund could be handled by one entity with close coordination with another. The system the team has designed is meant to address these notes.

The team will also need to develop TPAs and/or transit corridor criteria to prioritize initial investments; and determine what level of investments will be available; and what team qualities and skills are essential for each place to successfully execute the planning and implementation.

The following sketch was introduced by the team to the Equitable TOD Collaborative in July 2013. It has since been vetted by Enterprise and LIIF staff to elaborate and consider its vulnerabilities from an investment perspective and enhanced based on ongoing conversations with the Equitable TOD Collaborative. Many questions remain about the local market for infill and affordable housing, and what the statewide prospects are for public subsidy for affordable housing and infrastructure. Nonetheless, assuming many of these questions can satisfactorily answered in 2014, the sketch remains relevant.
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:

**Neighborhood Criteria**
- Transit Priority Area
- Mixed income population or low-income pop
- Access to quality jobs
- High or low opportunity area via Kirwin Institute

**Planning Team Criteria**
- Ability to make decisions/political clout
- What is each member’s skill contribution? Banker, lawyer, planner, employer, etc.

**What makes Neighborhoods and Teams Competitive?**
- Holistic and thoughtful vision shared by majority

**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 teams working in places with the following criteria:

**Property Criteria**
- Quality of transit access
- Catalytic site that will lead to additional investment in a neighborhood
- Alternate uses or potential for multiple project configurations (mixed income, mixed use, etc.)
- Part of a larger corridor plan, connected to comprehensive development of neighborhood, etc.
• Increasing, stable or declining real estate submarket

Project Criteria
• Financial feasibility
• Amount of subsidy needed
• Alignment with funding priorities (local and state)

Borrower Criteria
• Organizational capacity
• Financial strength
• 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
• What level of soft or hard commitments do they have from key financing sources?
• Near term possibility of financing assembly and construction start. Vet the timeline.
• Garner support from public officials, community and developers

A few notes to keep in mind:

1. **Equitable and successful TOD is much more complicated than funding one property.** While creating affordable homes near transit is essential to managing gentrification and creating opportunities for low- and moderate-income residents, the success should not end there. The aspiration is to use affordable housing in a variety of ways, depending on its micro-market. In some places, it will spur the market and be a key component of making a complete community – perhaps supplying one of the first buildings that include retail for local businesses or services on the ground floor. In other places, it will be integrated into an otherwise tough-to-develop site in an existing community that has many of the assets residents seek.

2. **Every node is distinct** – its market, connectivity to jobs, the stakeholders, the demographics, its assets, and much more. Some nodes critically need basic interventions like improvements to storefronts or bike/pedestrian routes. Other nodes need tier two interventions such as strategic infill development and/or preservation of key properties. And those that remain may be in need of fuller interventions that entail new infrastructure, new buildings and/or upgrades to the human capital that make TOD work -- such as business improvement districts.

3. **Creating great communities near transit means making hard choices about how and where to invest in the region.** It is essential for the region to transform/enhance a few communities exceptionally well. If realized, the Sacramento region will have places that can model and inspire future development methods and components. These focused approaches may seem to exclude particular neighborhoods in the short-term, but can jumpstart the Sacramento market’s long-term commitment to strategic TOD rather than doing bits of various types of investments scattered throughout the region.

How Could Take STOC Be Managed and Governed?
It is important at this stage to consider how decisions will be made and how Take STOC could be governed. It is essential to design Fund governance so that skills are complementary and conflicts of
interests are avoided and/or mitigated. Models in other places that have worked well include a few parts: a fund manager, a credit committee and an advisory committee.

A Fund Manager would be an entity (not necessarily one person) responsible for raising capital, developing Take STOC Fund legal documents, and closing of the Fund. The manager also would supervise the Fund’s day-to-day operations, including the credit process, financial management and reporting.

A Credit Committee’s role is to approve all prospective project loans, and to help determine a course of action for delinquent loans. This would be a small group of investors in the fund assembled to receive proposals and react to them as they come in, going deep into their feasibility and considering how well the proposals adhere to the mission of the fund. This would include a Chair from the entity that manages Take STOC and would benefit from having some rotating seats. For example, the group could be comprised of:

- One person as Chair that represents the Lead Fund Management organization (CDFI or NGO)
- One person representing top-loss investors
- One or two people representing the interests of Lenders invested in the Fund
- One person representing grant makers and top-loss investors
- One or two people representing a Community Development Finance Institution

An Advisory Committee would provide programmatic guidance and advice to the Fund Manager during the life of the Fund. The Committee would consist of roughly ten members and its members would serve as public ambassadors of the Fund and provide strategic and programmatic advice to the Fund. The Committee would also serve as a forum to discuss substantive matters that may affect the Fund or its mission. It would monitor the Fund’s progress against the established programmatic priorities and the business plan. The Committee would likely serve solely in an advisory capacity and not have any legally binding authority on the Fund. The Committee would not be responsible to review individual project transactions, nor would it have credit authority to approve/disapprove individual transactions or make any changes to the Fund’s legal structure or procedures. For example, the kinds of members imagined for this role could be comprised as follows:

- One or two representatives from Sacramento Area County of Governments
- One or two representatives from transit agencies
- Two or three representatives from growing Sacramento Region, City or County governments
- A national or state nonprofit with expertise in TOD policy, research and or finance
- One or two philanthropic partners with experience and interest in an aspect of TOD – environment, health, social justice, economics, housing, etc.
- A representative from a housing advocacy organization

**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 quality-of-life outcomes outlined in the region’s Sustainable Communities Strategy requires a range of investments. Given the size of this task, those investments must go beyond catalyzing affordable housing near transit in a handful of locations. Recognizing this, the proposed Sacramento Equitable TOD Business Plan lays the groundwork for addressing the range of financing and supportive planning tools that are needed to help focus affordable housing development near transit as well as meet other important regional goals related to
reducing congestion, improving mobility and increasing access to economic opportunity for low and moderate income people in the region.

The recommendations below prepare the Equitable TOD Collaborative to launch the Take STOC Fund:

**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;
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 policy support will help create effective investments around transit in the coming years; and
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, long term hold and release strategy for equitable development; and
7. Defining 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; $10 million for key components that will help to complete equitable transit-oriented communities once development is underway);
11. 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 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.
Conclusion
The next work task will be to identify a wide range of practical investment and implementation strategies that can expand the potential for equitable investment throughout the Transit Priority Areas that could include, but may not be limited to, new housing development. This will build on the foundation created by the Equitable TOD Collaborative and this Business Plan for Take STOC and will further the process of implementing visions for equitable transit oriented communities by:

1. Defining the range of context-sensitive investment opportunities and priorities in the Sacramento Region;
2. Defining an implementation framework for the range of investment opportunity areas;
3. Continue 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;
4. Engage with key policy makers and other regional leaders
5. Identify a fund manager(s); and
6. Raise capital and structure a financing mechanism to reflect the goals of the Equitable TOD Collaborative and the investors.

Once these steps are completed, stakeholders and investors should have a much clearer path to creating an effective financing system together.
Sacramento’s stable jobs base, mild climate, central location and low relative cost of living are significant magnets to new residents and businesses from across the state and nation. To accommodate the rapid pace of growth the Sacramento Region will experience over the next several decades, regional visionaries have planned a future growth pattern with less air pollution, more transportation choices, greater housing affordability and better overall quality-of-life for tomorrow’s residents and workers. The region’s Sustainable Communities Strategy (SCS) lays out plans for reducing vehicle-based greenhouse gas emissions by 10% per person by the year 2020 and 16% by the year 2035, all while accommodating nearly 300,000 new homes and over 300,000 new jobs.

Ensuring the region can grow healthier and more sustainably in the long term necessitates focusing growth in locations that can reduce the overall amount people drive. The region is on the right track with new investments in light rail and bus rapid transit, as well as investments in planned rail and streetcar expansions. The region’s management of growth is strategic – it fosters new development in transit rich locations by creating appropriate incentives for development while simultaneously discouraging growth in outlying areas. This is especially important given that in order to achieve the SCS greenhouse gas reduction targets, more than one-fifth of new housing – or about 71,000 units, will need to be built near transit.

On the following page, figures 1 and 2 show the forecasted location of this growth – and increased population densities - within the transit priority areas. In particular, areas throughout and around downtown like the Railyards and West Sacramento, the north Natomas corridor, Sacramento State, Rancho Cordova and the Hazel/Easton area are forecasted to grow into higher density centers along the transit network.

It is critical to ensure that this housing is affordable to current and future households in the Sacramento Region. According to the Regional Housing Needs Allocation (RHNA), by 2021, 58% of new housing units across the region (over 61,000 units) will need to be affordable to very low, low, and moderate income households (Figure 3).

One strategy to achieve these growth targets within the housing price points that match incomes of existing and new residents is equitable transit-oriented development (eTOD). The following sections describe the need, and potential health, transportation, and economic benefits of achieving equitable TOD in the Sacramento Region.

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5 RHNA is a state mandated program that requires the Sacramento Area Council of Governments to set goals for affordable housing that each city must meet in its housing element.
Figures 1 and 2: 2008 and Forecasted 2035 Dwelling Unit Density within Transit Priority Areas

Source: Sacramento Area Council of Governments (SACOG), 2013
What is “Equitable TOD”?  
In recent years, communities throughout the country have embraced the concept of equitable transit-oriented development or “eTOD.” This planning concept ensures existing land uses and new developments are designed to support greater transportation options for local residents. It offers safe, walkable streets, comfortable access for bicycles and public transit, connections to major employment centers and other regional destinations, and a compact mix of uses that increases transit ridership while providing access to daily goods and services.

While there is no “one-size-fits-all” approach to eTOD, vibrant transit-oriented communities often include a range of development types, a varying mix of uses, and may include a significant increment of new development or enhancement of existing uses with investments in public infrastructure and community amenities. When successful, transit-oriented districts can generate many benefits for local residents and workers, and the region as a whole. By increasing location efficiency and fostering greater transit use, walking, and biking in proximity to where people live, work and play, eTOD can deliver benefits such as:

- Boosting transit ridership resulting in greater farebox revenue for local transit agencies;
- Mitigating or reducing traffic congestion, which in turn improves air quality and overall quality of life;
- Revitalizing local communities with new private and public investment;
- Fostering local economic development with built-in customers residing in convenient proximity to services, shops and restaurants;
- Fostering regional economic development by attracting a labor pool seeking a higher quality of life and unlocking job growth potential in congested economic centers without corresponding increases in traffic or pollution; and
- Creating a sense of community, identity and place.
Equitable transit-oriented development incorporates the same set of urban design, development, and investment activities as traditional TOD. It also ensures that investments enable households and workers of all incomes to enjoy the numerous benefits of TOD. Because new market-rate housing located in a TOD is more prone to serve households at the higher end of the income spectrum, and because interest in living in transit rich communities is strong (and growing), equitable TOD requires thoughtful up-front consideration. Specifically, it is important to examine the ways in which public and private investments in TOD will be inclusive of low and moderate-income households. To make eTOD successful, one must consider where those households will live, include different types of homes (for owners and renters, and homes for a range of household sizes, for example) and increase opportunities and access to amenities such as fresh food, quality education, workforce training, health care and other services.

Activities unique to planning and preparing for eTOD include anticipating whether low-income residents are vulnerable to displacement, investing in amenities and services to increase economic and health opportunities for all residents, ensuring that pedestrian and bicycle infrastructure investments occur in neighborhoods of all incomes along a transit corridor, and assuring that new residential developments include housing that is affordable to very low-, low-, and moderate-income households and families.

**The Top Four Reasons Equitable TOD is Important to the Sacramento Region**

1. **Equitable TOD Supports Affordable, High-Quality Lifestyles.**

Transit-oriented districts can provide truly affordable living choices for the Sacramento Region’s residents. While housing affordability has traditionally been defined as households spending no more than 30% of their income on housing, the cost of transportation is a hidden but significant expense for many households that also needs consideration. Transportation costs vary depending on where you live and how much you drive, but the combined cost of car payments, insurance, repairs, and gas comprises the second greatest expense for the average Sacramento household.

Figure 4 shows the location of housing that is affordable to the average household in the Sacramento Region. The map uses the traditional view of affordability where a household spends no more than 30% of its income on housing. Areas in yellow would be affordable by this definition, and it appears that “driving to qualify” for cheaper housing is an affordable option for the typical household earning about $60,000 per year. When one adds the cost of transportation into this definition, a household can afford a home when the combined housing and transportation cost is less than 45% of its income. Figure 5 shows that most of the outlying neighborhoods in the region become out of reach for the average household earning $60,000 per year, but that communities closer to the core of the region maintain their affordability. Driving to qualify for housing no longer makes sense, as the cost of driving puts outlying neighborhoods out of reach for most households. Indeed, residents in the Sacramento Region spend more on transportation than the average American: the average Sacramento household spends 54% of its income on the combined cost of housing and transportation, compared with the national average of 47%. Transportation comprises 24% of household spending on average in the Sacramento Region, compared with the national average of 17%.

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6 Source: Center for Neighborhood Technology, Housing + Transportation® Affordability Index. Htaindex.org.
Locating housing, jobs and services near transit can help ensure that more households have the ability to live in truly affordable neighborhoods that offer greater transportation choices beyond driving. Though many of Sacramento’s transit station areas can use greater investments in the amenities associated with TOD that help offer residents and workers transportation choices, the system already offers lower transportation costs overall than the region as a whole. Figure 6 shows that households
living within a half mile of transit station areas spend 45% of their annual income on housing and transportation (less than the national average of 47%), compared to 54% in the region. Households living near transit spend an average of 21% of their income on transportation, compared to 24% in the region.

Figure 6. Housing & Transportation Costs for Transit Station Areas vs. Region, 2010

Source: TOD Database, H+T data from Center for Neighborhood Technology

2. Equitable TOD Optimizes the Transit System.

You wouldn’t set the table before knowing how many people are coming to dinner. You wouldn’t invest in a transit system without planning for people to use it. Low- and moderate-income workers are more likely to take transit than upper-income people so it is smart to build in ways for them to access the system easily. Low- and moderate-income workers in the Sacramento Region comprise 70% of all transit commuters in the region. The low-income workers living near transit are significantly more likely to take transit than those who live far from transit. Figure 7 shows the share of workers who take transit throughout the region, and specifically for those living within station areas.

Overall, workers in the region are more than twice as likely to take transit to work if they live within a half-mile of a rail station, and this is particularly true for the region’s lowest-income residents. Workers who earn less than $25,000 annually comprise 46% of the region’s transit commuters, and workers earning less than $50,000 annually comprise nearly 70% of the region’s transit commuters. Ensuring these workers have continued and improved access to the transit system will help reinforce and increase core ridership across the transit system.
3. Equitable TOD Helps Support Healthy Communities for Households of All Incomes.

Creating equitable and sustainable communities is fundamentally about creating healthy and complete communities. The design of our neighborhoods determines how we get from place to place, where we get our food, where we play, where we seek medical help and how we interact with others. Our access to these opportunities in turn affects our physical and mental health, and evidence is mounting that the built environment has a significant effect on many of our nation’s most severe public health challenges. The health benefits of walking, bicycling and using public transportation to get from place to place are well documented. But ironically, many low-income and minority communities living in urban areas that would be considered walkable and transit-rich have some of the highest rates of chronic disease and lowest levels of physical activity due to safety issues and lack of amenities such as grocery stores, banks and medical clinics. Equitable TOD can help improve public health by increasing access to the resources low-income populations need to thrive, as well as making active and public transportation safe and convenient ways to get from place to place.

Figure 8 shows the obesity rates for the Sacramento Region compared to other California metro regions, as well as the state. While the Sacramento Region’s obesity rate of 24% is much lower than the national average of 36%, it is slightly higher than the California statewide average of 23.8%, and higher than the Bay Area. Moreover, obesity rates are often higher among low-income and minority households, which could benefit the most from the greater access to healthy food and active living that equitable TOD can provide.
Equitable TOD can also support active transportation goals, which in turn will improve public health in the region by increasing physical activity levels. The Sustainable Communities Strategy calls for an increase in biking and walking of 9% to 10% by 2035, and from 16% to 19% in transit rich areas. Transit supports these goals as well – national research shows that workers who take transit to and from work are four times more likely to walk the daily recommended 10,000 steps, and walk an average of 30% more.\(^7\)

Residents benefit when transit-rich places are also complete communities that offer a mix of housing and employment with services and amenities like grocery stores, shops, schools, parks, and other community facilities. These are the elements, along with safe streets and pedestrian amenities, that make it possible to not only take transit from the transit station, but to live easily without a car and more frequently walk and bike to local destinations. Thus, these neighborhoods also support healthier, more active lifestyles.

### 4. Equitable TOD Helps Increase Access to Economic Opportunity

Sacramento’s employers in major job centers require workers with a variety of skill sets, and pay wages across the income spectrum. Workers with less than a Bachelor’s degree fill nearly three-quarters of the almost 600,000 jobs located in Sacramento County, and half of the County’s jobs pay less than $40,000 a year, with 18% paying less than $15,000 a year.\(^8\) Offering housing that accommodates the full income range of the workforce is a key priority to support the lasting health and growth of the Sacramento County economy.

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Ensuring the ongoing growth of existing transit rich job centers is critical to the economic competitiveness of Sacramento. Existing job centers have a competitive advantage in fostering new job growth for a number of reasons:

- **They are proven centers of economic activity and resiliency.** The benefits of agglomeration found in these job centers are still attractive to many employers;
- **They are central to the regional labor force.** Access to these job centers is a key competitive advantage, which will be further enhanced by ongoing improvements to the regional transit network including the expansion of light rail and bus rapid transit corridors;
- **They will accommodate growth of existing businesses.** In California, about 40% of job growth occurs through the expansion of existing firms, with the majority of other job growth occurring through the creation of new businesses.\(^9\) As businesses within the Sacramento Region grow, they will need to make business relocation decisions to accommodate their expansion. Ensuring that they consider locating in existing key job centers throughout the County, preferably those well served by the transit network when appropriate, is a key economic development strategy.

Successful Equitable TOD implementation can help Sacramento’s economic engines grow without corresponding increases in traffic congestion. Many employers located in places like downtown Sacramento and the UC Davis Medical Center area greatly benefit from the agglomerative benefits of concentrated job centers. Whether it is the convenience of locating near related firms or the ability to attract a qualified labor pool, these areas command a premium in rents due to their desirability as places to conduct business. Some of these areas are also the job centers that Regional Transit strives to serve in order to reduce congestion, while generating a significant share of transit ridership.

Commuters to these job centers earn a variety of incomes and require a variety of skill sets, as shown in Figures 9 and 10. About 35% to 40% of jobs in downtown Sacramento, the UC Davis Medical Center and the Rancho Cordova Sunrise/White Rock areas pay less than $40,000 per year. Less than one-third of positions in these job centers require a Bachelor’s degree or higher. Thus, building new residential development targeted to the highest end of the real estate market will not create transit districts that accommodate the broad range of the area’s employees. Meeting the economic growth that is anticipated for these and other job rich centers of economic activity necessitates more than only high-end residential development.

Many employers and business coalitions across the country also understand the need for workforce housing. In national survey of over 300 major office based employers, 55% acknowledged an insufficient level of affordable housing, and two-thirds believed that the shortage is impacting their employee retention rates.\(^10\)

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\(^10\)
Figure 9: Wage Distribution in Select Sacramento County Job Centers, 2011

Source: Longitudinal Employer Dynamics, OnTheMap

Figure 10: Educational Attainment of Workers in Select Sacramento County Job Centers, 2011

Source: Longitudinal Employer Dynamics, OnTheMap
Figure 11. Job Centers Near Sacramento County’s Transit Priority Areas, 2008

Source: SACOG
**Getting There: Achieving Equitable TOD**

To achieve equitable TOD in the Sacramento Region, new tools and strategies are needed to promote and incentivize affordable housing and other development near transit. Of particular interest is whether there are approaches which, when combined with resources currently available in this environment, would accelerate and catalyze equitable TOD at a pace that meets RHNA and SCS goals faster than 2021 and 2035, respectively.

Low-income residents in Sacramento are currently more likely to live near fixed-guideway transit. As Figure 12 shows, low-income households make up a greater percentage of the population living within a half mile of existing and future transit station areas—27% of residents in transit station areas earn less than $25,000 per year, compared to 18% in the region as a whole. Moreover, the median household income is lower for those living within a half mile of transit stations than the region as a whole. Within transit station areas, the median income is $48,600, compared to $61,100 for the region.\(^{11}\)

\(^{11}\) Derived from the TOD Database using American Community Survey 2005-2009 data. Note that SACOG’s estimate for median household income includes the Yuba City/Marysville MSA, so it is lower at $55,151.
**Challenges to Equitable TOD**

Several challenges stand in the way of implementing equitable TOD in Sacramento:

**Sacramento is not a transit region (yet):** While Regional Transit operates an extensive light rail system and bus network, many transit station areas are not walkable or accessible to major destinations or people’s homes. Jobs centers, besides Downtown, are also not well-linked to the transit network. Many job centers are located in the north and east of the region, far from where the region’s low-income households primarily live. The mismatch between where low-income residents live and where jobs are calls for new access investments before new development is likely to come to fruition.

**The challenge of competing with sprawl – both job sprawl and residential.** Suburban-style residential development is still popular in the Sacramento Region and is actually growing. Competing for resources with developers building more single-family homes in suburban areas will remain a challenge. Employers are also highly dispersed throughout the region and have not historically made location decisions based on proximity to transit. Finding the right mix of policies and incentives to attract more development near transit, especially affordable housing and low/middle-skill jobs, is essential to creating an environment conducive to equitable TOD.

**The need for a multipronged approach.** There is no one-size-fits-all solution to implementing equitable TOD. The Sacramento Region needs significant investments in infrastructure, planning and community capacity building. It also needs to identify gaps in existing subsidies and financing structures that are preventing affordable housing from being built in many transit station areas. The region should also explore opportunities for joint development with Regional Transit and other public agencies.

**The need for local champions.** There is a collaborative spirit among the local and regional agencies working on equitable TOD in the Sacramento Region, but there are missing partners, like philanthropy, elected officials and community-based organizations, who can be key players in achieving equitable TOD. Moreover, some agencies lack the capacity to implement equitable TOD, even though they have committed to it in long-term plans. Finding and cultivating leadership in the region is a critical step in generating buy-in for equitable TOD among the funders and implementers in the region.

**Conclusion**

Equitable TOD has the potential to confer many benefits on lower-income families and the region overall. Stable transit ridership, improved air quality, greater housing affordability and enhanced economic prosperity are all benefits that the region can reap from supporting housing in transit-oriented districts with a broad mix of incomes.

And yet there are many challenges to supporting equitable TOD that will need to be addressed before the region can realize the benefits of it. Successfully achieving equitable TOD in Sacramento will require consideration of ways in which public and private investments can be inclusive of low- and moderate-income households, and increase opportunities and amenities such as fresh food access, quality education, workforce training, and access to health care and other services. Building out the transit system is one crucial component to building equitable TOD; however, ensuring that affordable housing is linked with transportation investments is key to gaining the full benefits of equitable TOD.
RECOMMENDED NEXT STEPS FOR IMPLEMENTING EQUITABLE TOD IN THE SACRAMENTO REGION
(Report May 2013)

Like other regions in California, the Sacramento Area Council of Governments (SACOG) has created a Sustainable Communities Strategy (SCS) to address the region’s future population and employment growth in ways that meet the state’s air quality standards. A key goal of the SCS will be to facilitate more intense development in already developed parts of the region, especially those areas around existing and planned transit. This “policy brief” highlights some of the potential challenges associated with this development scenario, and suggests immediate next steps for implementing transit oriented development (TOD) with a particular focus on equitable TOD that can both leverage market activity in strong market locations to benefit low- and moderate- income households as well as help attract market rate investment to those areas near transit that are targeted for growth, but have shown little or no recent market activity.

Existing Development Patterns and the Transit Priority Areas
For purposes of this analysis, SACOG has identified 32 transit priority areas (TPAs) that will serve as the geographic unit of analysis for considering both existing and future development patterns near transit in Sacramento County and the Bridge District in West Sacramento as shown in Figure 1. The TPAs are defined as the one-half mile buffer along existing or planned high quality bus lines or rail stations. These TPAs are not individual transit station areas, but include clusters of stations or bus corridors where there have been existing local planning efforts and/or represent jurisdictional boundaries.

Figure 1 also illustrates the fact that the SACOG region has not experienced equitable development over the years, irrespective of where there is transit service. Areas shown on the map in red are the areas experiencing the greatest “distress” based on a set of “social vulnerable indices” developed by the University of California, Davis Center for Regional Change as part of the HUD Sustainable Communities Regional Planning grant. While these areas have perhaps the greatest need for future investment, they are also the most “challenged” from a market perspective. This issue will be addressed further below.

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12 High quality transit is defined as fixed route rail or bus service with service intervals of 15 minutes or less during peak commute hours.
As Table 1 below shows, the 32 TPAs, which are a significant subset of “all TOD areas” in the region, accounted for approximately 10 percent of all regional housing units in 2008. By 2035, these areas are expected to account for 14 percent of total housing units, adding a projected 71,000 new housing units. In reality, future construction around transit will not be distributed equally across all TPAs. But, one way to better understand significance of adding 71,000 units to the TPAs is to divide the total number of units by the number of TPAs. What this shows is that if the region is going to absorb this many units in Sacramento County TPAs, on average, each TPA would need to add approximately 2,200 new units by 2035. Given that some places will get more units and some will get fewer, this is still a major challenge, especially in a region where infill is still the exception, not the norm.

Table 1: Households, Household Projections, and Recent Development Trends by Region and All TOD Areas

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<th>Recent Development</th>
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<td>Percent Increment 2008-2035</td>
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<td>Housing Units</td>
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<td>100%</td>
</tr>
<tr>
<td>All TOD Areas</td>
<td>90,115</td>
<td>14,675</td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>2008 to 2012</td>
</tr>
<tr>
<td></td>
<td>161,006</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>14%</td>
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</tr>
</tbody>
</table>

Source: SACOG, 2013
Another way to consider these 71,000 units is to look at the share of total units that SACOG forecasts would be produced in the region by 2035. If the SACOG housing unit projection were a proxy for total housing demand, TOD would fulfill about 23 percent of all demand for new homes in the region. Numerous housing demand estimates have been done on both national and regional levels estimating future demand for housing in moderately dense walkable neighborhoods that could also be transit oriented. These demand estimates reflect the changing demographic conditions in America, including fewer households with children present, younger people wanting a more urban lifestyle, and the aging baby boomers who may want to relocate from their suburban homes to more urban locations with more amenities within walking distance. While there are variations in these housing demand estimates reflecting both regional differences and slightly different methodological approaches, these estimates typically fall within a range of 25 to 40 percent of all households wanting to live in areas that could be consistent with the broad definition of TOD. This range is consistent even for low-density regions with a high proportion of family households such as Phoenix. Therefore, from a demand perspective, assuming that the existing TPAs could support 23 percent of total 2035 housing demand appears to be a reasonable assumption.

However, the picture on the supply side is a bit different. Because the market will be primarily responsible for providing this supply, looking at recent market activity in the context of both existing and future projected supply, as shown in the MTP/SCS provides valuable insight into how the SACOG region should consider investing resources in facilitating SCS implementation. Table 2 shows that of the 32 TPAs, 13 of these areas accounted for over half of all TOD in 2008, and by 2035, these same 13 areas will account for 75 percent of the total incremental increase in TOD units. These 13 TPAs can be grouped into five geographic “clusters” that represent distinct “sub-regions” within the County. In 2008, three of these sub-regions accounted for over half of the unit in the 32 TPAs. And, by 2035, 40 percent of the total incremental growth in TOD units is anticipated to go to just one sub-region composed of three TPAs: the greater downtown, which includes the Bridge District in West Sacramento (Table 2).

Recent development trends as well as planned projects show that these same 13 TPAs account for approximately 90 percent of both recently built and planned units for all 32 TPAs. During the recent housing market expansion (2001-2007), approximately 70 percent of the new TPA units went to lower density suburban areas in either the northwest or the southwest. However, after the market collapse, priorities shifted and the greater downtown area more than doubled its share of new units. The northwest area added many fewer units overall between 2008 and 2012 overall, and production within this sub region moved from TPAs 9 and 10, to TPA 8. While there is a very specific reason for this development slowdown related to flood control issues, it is also interesting to note that the market seemed to also be shifting production closer in to downtown Sacramento. Looking forward into the near future, the market appears to increasingly favor the greater downtown area as an important development location as this area accounts for almost 70 percent of the planned units. These market trends appear to validate the SCS 2035 TOD unit allocation, but also underscore the fact that trying to leverage more significant increments of TOD housing in other TPAs may be challenging as the market may not be particularly supportive.
Table 2: TPA Development Trends and Future Growth Allocations

<table>
<thead>
<tr>
<th>TPA Geography</th>
<th>Existing Conditions</th>
<th>Recent Development (1)</th>
<th>TPA Development Plans (2)</th>
<th>Future Growth Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>All TOD Areas as Percent of Region</td>
<td>10%</td>
<td>5%</td>
<td>12%</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Northwest</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 DNA Seg 1 (South Natomas)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9 DNA Seg 2 (North Natomas Marketplace)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 DNA Seg 3 (Commerce Pkwy)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Northwest subtotal</strong></td>
<td>20%</td>
<td>50%</td>
<td>16%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Greater Downtown</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Downtown Sacramento (East of 16th St)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Downtown Sacramento (West of 16th St)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>32 Bridge Dist/W Cap/Wash/Locks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Greater Downtown subtotal</strong></td>
<td>14%</td>
<td>15%</td>
<td>36%</td>
<td>67%</td>
</tr>
<tr>
<td><strong>East</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 Gold Line Seg 2 (65th to Power Inn)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Southeast</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 Franklin Blvd 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19 South Line Seg 3 (Meadowlview to CRC)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 Stockton Blvd 1 (14th Ave to Florin Rd)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>29 Stockton Blvd 2 (Florin Rd to Mack Rd)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Southeast subtotal</strong></td>
<td>17%</td>
<td>19%</td>
<td>18%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Northeast</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27 Greenback Ln 2 (Sunrise to Main)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 Watt Ave 2 (N. Watt &amp; Madison to Antelope)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Northeast subtotal</strong></td>
<td>3%</td>
<td>3%</td>
<td>20%</td>
<td>22%</td>
</tr>
<tr>
<td>Percent Total for all TPAs</td>
<td>55%</td>
<td>91%</td>
<td>90%</td>
<td>91%</td>
</tr>
</tbody>
</table>

Source: SACOG, 2001
To achieve the land use scenario included in the SCS, the overall number of units in TPAs will have to increase, but in some areas, the densities of new development is also expected to increase. Producing the necessary densities will also be a significant issue. Figure 2 shows residential densities for 2008 and Figure 3 shows residential densities for 2035.

Figure 2: 2008 Housing Residential Densities

A significant proportion of the future higher density housing, especially for units built at 35 dwelling units per acre or greater, are shown to be constructed in the greater downtown-sub-region. But, pockets of higher density units also appear to be planned for a few other TPAs. Again, based on recent market trends, it may be difficult to leverage new construction in these areas at densities of over 35 dwelling units per acre which will likely require some type of structured parking. Recent development proposals for the TPAs show that only 20 percent of total proposed units multifamily and 90 percent of those were proposed for the greater downtown sub-region.

13 Densities up to approximately 30 dwelling units per acre can be parked using inexpensive construction techniques, including surface parking, or “tuck under” parking spaces within a wood frame building. However, densities approaching 40 dwelling units per acre require more expensive structured parking. For more information on density and construction types, please see “Downtowns, Greenfields and Places In Between: Promoting Development near Transit” Center for Transit Oriented Development, 2013. http://ctod.org/ctod-research.php
Employment Patterns and Future Growth

Employment patterns and future employment growth are important to the equitable TOD discussion for three reasons. First, commute trips comprise almost 60 percent of total transit trips. If a transit system is not serving major employment centers, it will typically underperform on ridership numbers and fare box recovery. Job connectivity is mandatory for a robust transit system. Second, employment concentrations with significant proportions of office-based jobs appear to have the greatest opportunity to attract new residential development. Third, employment concentrations along transit lines represent a significant opportunity for people with limited access to cars to reach a wider range of jobs. Each of these issues will be discussed in more detail below.
Existing employment in TPAs represented approximately 30 percent of all jobs in the region, and 56 percent of those jobs were represented in just eight of the 32 TPAs. As with the distribution of residential units within the TPAs, the employment oriented TPAs cluster into several sub-regions, as shown on Table 3. Not surprisingly, the greater downtown area accounted for about 40 percent of all TPA employment as well as having the one of the best performing office markets among the 32 TPAs.

**By 2035, the TPAs’ share of total employment is expected to drop to 27 percent of regional employment, and TPAs are expected to capture only 20 percent of regional employment growth.** What this implies is that the region’s jobs could become more dispersed, instead of more concentrated near transit. To the extent that future jobs will be growing in new employment centers, this could suggest that transit will become less, rather than more viable as a mode of transportation in the future. But, as Figure 4 shows, many of the region’s employment centers, most notably the Rancho Cordova employment area, are not near transit, but could continue to mature into increasingly intense employment districts. Given the experience of other major suburban employment centers around the country, such as Tysons (formerly Tysons Corner) in northern Virginia or Warner Center in Los Angeles, where further development expansion is being limited by traffic capacity and transit is considered the only viable option to allow for further growth, it is likely that the Sacramento employment centers may need more transit options to foster their continued growth in the long term.

However, from a market perspective, the MTP/SCS 2035 employment projections indicate some other trends that may need additional consideration. As shown in Table 4, there are three TPAs - TPA 3: Gold Line Segment 5, TBA 31: Watt Avenue 2, and TPA 32: Bridge District - that are shown as 2 percent or less of TPA employment in 2008 to having a 7 percent or greater share in 2035. This represents a major increase above current employment levels, and potentially a major change in land use and development patterns in these areas. Such a big jump in employment seems reasonable for the Bridge District which is part of the greater Downtown Area and is also expected to capture a significant increment of new housing. Watt Avenue 2 area is also expected to capture a significant share of new TOD housing units by
2035. But, it appears that most of this projected growth would be in the retail sector, since retail activity already accounts for a significant proportion of the area’s jobs, as shown on Figure 5 below. Given that the SCS also projects major residential expansion in this area, retail employment seems possible, however, a major retail concentration may not drive transit ridership the way office based employment would. But the large employment increase projected for the Gold Line Segment 5 seems less likely given basic market considerations. The three transit stations in this TPA are expected to have only limited housing growth and the predominant employment in the general vicinity appears to be retail. While some of the housing units anticipated for construction in Rancho Cordova could also serve jobs in TPA 3, this is still a long way for the region’s core employment centers and could serve to fuel more low density housing construction away from the transit, instead of helping to focus growth in the more central parts of the region where it could be better served by transit and where employers could have access to a larger proportion of the labor pool.

Figure 5 shows the overall industry mix for the TPA. While the Gold and Blue Lines both appear to have major employment concentrations in industries that foster transit ridership, including most office-based industries, medical institutions, and schools including high schools, community colleges, and universities, the South Line in particular appears to lack any major employment destinations. While this may change if the recently closed Campbell’s Soup facility at the 47th Avenue light rail station is able to attract another major employer, industrial activity in general tends to attract lower transit ridership levels than other industries. This lack of employment anchors in turn impacts TOD housing demand, and thus suggests that, in general the TPAs in the southeast sub-region are relatively weak from a TOD perspective.
Table 3: Employment Patterns and Commercial Real Estate Vacancy Rates

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</thead>
<tbody>
<tr>
<td>Region</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>All TOD Areas</td>
<td>29%</td>
<td>27%</td>
<td>20%</td>
<td></td>
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<td></td>
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<tr>
<td>Near Northeast</td>
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<td></td>
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<tr>
<td>Blue Line Seg 1</td>
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<tr>
<td>(American River to</td>
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<tr>
<td>Swanston)</td>
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</tr>
<tr>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>21%</td>
<td>20%</td>
<td>8%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Greater Downtown</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Downtown Sacramento (East of 16th St)</td>
<td>10%</td>
<td>8%</td>
<td>4%</td>
<td>11%</td>
<td>11%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Downtown Sacramento (West of 16th St)</td>
<td>30%</td>
<td>29%</td>
<td>24%</td>
<td>10%</td>
<td>10%</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Greater Downtown Subtotal</td>
<td>41%</td>
<td>42%</td>
<td>44%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greater East Subtotal</td>
<td>10%</td>
<td>12%</td>
<td>18%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Northeast</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Watt Ave 2 (N. Watt &amp; Madison to Antelope)</td>
<td>2%</td>
<td>3%</td>
<td>8%</td>
<td>17%</td>
<td>26%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Percent Total for all TPAs</td>
<td>56%</td>
<td>60%</td>
<td>72%</td>
<td></td>
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</tr>
</tbody>
</table>

Source: SACOG
Matching Up Market and Opportunity Sites

One of the biggest challenges to implementing the MTP/SCS will be to steer market forces to the considerable land supply in the region’s core, rather than allowing development to spread out and dissipate the potential positive impacts transit and TOD could have on the region. Research conducted by the Center for Transit Oriented Development (CTOD) suggests that new transit oriented development tends to cluster around existing employment concentrations, especially downtowns, or downtown adjacent neighborhoods, rather than in locations where there is underutilized land, but also weak market conditions. However, Figure 5 indicates that the Sacramento TPAs where the market is strongest for both housing and employment based development also have a considerable supply of underutilized/vacant land.
Next Steps to Support Equitable TOD

As Figure 1 shows, many of the TPAs that have the greatest “need” from an equitable development perspective are not the areas that are expected to receive significant future investment in either housing or employment. While these areas are expected to capture some of the region’s growth, most of the market momentum appears to continue moving away from the places where there are already inadequate opportunities for employment, a dearth of high quality housing, a lack of a positive environment for small businesses, poor social and physical neighborhood infrastructure, etc. The major exception to this is the greater downtown sub-region which has experienced considerable market investment, but also has the largest concentration of permanently affordable housing units in the region. Given that this sub-region is expected to attract the largest increment of both TOD housing and jobs (40 and 44 percent respectively) of any area in the region, it appears to have tremendous potential to serve as a major mixed-use and mixed-income core to that region. Based on this conclusion and the additional data analysis shown above, the following steps are recommended to assist SHRA, SACOG and the Equitable TOD Collaborative in moving forward with implementing a truly equitable MTP/SCS.

Step 1: Develop a system for prioritizing future TOD related investments that take into consideration both community need, but also market strength and overall area capacity to absorb significant increments of TOD related growth. This system could resemble the TOD typology adopted by Portland Metro for its TOD fund. The Portland system allows Metro staff to allocate funds to places where the investment will have significant impact, and to focus on other actions, other than direct financial support, to assist areas that need greater social support and better planning in order to both improve the quality of life for existing residents/works and in the longer term to attract additional market driven investment. In addressing the needs of these more market challenged areas, SHRA, SACOG, and the Equitable TOD Collaborative should consider recruiting additional institutional partners including the County Department of Health, the region’s major hospitals, local institutions of higher education, and
the work force training community. As part of this process, SACOG should also consider ways to use existing CMAQ/STP funds to build community supportive infrastructure.

Step 2: Work with communities to remove any basic policy restrictions on building TOD. Developers have repeatedly pointed out that getting the basics right, like having appropriate zoning in place, or establishing permit streamlining procedures can cut down on the time and money required to get a TOD project through the approvals process, which in turn reduces the overall cost of building the project. In a region where even minor increases in density over single family homes may not be financially viable, every step a city can take to reduce costs for these projects will help feasibility. However, it is critical that cities understand and calibrate zoning to their market potential so that areas near transit are not “over zoned” either. For example, four-story mixed-use buildings may be appropriate in some parts of the region, but in other places, it will take the market a long time to support these buildings. Yet, densities can be significantly increased over standard single family subdivisions by allowing for town houses and other “stacked” or attached housing products.

Step 3: Work with RT to build greater capacity for joint development and real estate. Joint development can be a powerful tool for building new or innovative product types in untested market areas. Some transit agencies have used joint development as a way to support affordable housing development near transit as well, by negotiating favorable land deals with developers. Further, the Federal Transit Administration allows transit agencies to purchase land specifically for joint development when acquiring land for transit expansion, which could be a prime opportunity for RT to support TOD as the system expands. But, the RT Board must be willing to take on this leadership role, and must be able and willing to support their staff in utilizing the Agency’s property based assets to assist in implementing the Blueprint Plan.

Step 4: Look for incremental or interim ways to increase transit access to sub-regions that already have significant housing and/or employment concentrations, but lack high quality transit service. Some notable examples are the TPAs 8: South Natomas, 9: North Natomas, and 10: Commerce Parkway which have all experienced significant increments of new dense residential development over the past ten years, but are not likely to receive light rail for many years due to funding constraints. The region should consider creating a bus-based system that can provide frequent and high quality service to this area at a much lower cost, much as Kansas City has done with its BRT system. Another example is the Rancho Cordova employment concentration. Although this area will never be adequately served by the Gold Line due to its center falling 1-2 miles from the station, there are still considerable options for creating “last mile” shuttles, or other smaller scale transit connections that allow people to use the Gold Line for the major part of their commute, and then to transfer to a smaller, more nimble system to reach destinations away from the Gold Line stations. Places like Mission Bay in San Francisco and major employment centers in San Diego have all had excellent success with this approach.

Step 5: Focus on improving bicycle and pedestrian connectivity for neighborhoods with low car ownership and high transit dependency. Many lower-income neighborhoods lack the basic infrastructure necessary to support safe comfortable walking and/or biking. And yet, the people living in these neighborhoods often suffer from higher levels of obesity and other diseases related to inactive lifestyles. Merely improving opportunities to walk and bike could have a significant impact on these residents’ quality of life.

Step 6: Work with local and national CDFIs and other organizations that can provide financial tools and facilities, in addition to better quality mixed-income and affordable housing that can make all
TPAs “complete communities.” These facilities could include day care centers, health clinics, branch libraries, charter schools, and/or small scale food stores; however, this step will be discussed in greater detail later in the Equitable TOD process.

**Step 7: Look for innovative approaches to infrastructure financing, especially in the TPAs.** The SACOG region may have a bigger infrastructure financing challenge that the other major regions in the state and should look to be a leader in exploring new and innovative approaches to infrastructure financing. However, this effort should also be executed in partnership with the Strategic Growth Council and the other MPOs in California. Any new financing model will likely require some combination of new taxes where existing property owners as well as new development pay some share of the cost, as well as looking for ways to reinstate some form of tax increment financing that will be both equitable to all taxing entities and provide cities with a better tool for leveraging the upside of future development.

**Step 8: Work with local developers and development organizations like the California Infill Builders Association and ULI to build stronger capacity within the development community to successfully engage in more complex infill projects.** The region already has some outstanding infill developers, but their successes need to be widely publicized and forums need to be established for both informal and formal exchanges of information, including recruiting regional lenders to the discussion so they too can become better partners in the infill process.

**Step 9: Consider ways to build capacity or otherwise support urban school districts who are struggling and yet whose schools could eventually be required to support many new households.**
June 24, 2013

To: Sacramento Area Equitable TOD Collaborative
From: Melinda Pollack, Vice President –Solutions
Heather Hood, Director of Programs –Northern California

Re: Understanding the Specific Needs for Innovative Financing Tools

Our team is assisting the Equitable TOD Collaborative to consider options for building a financial mechanism to advance equitable TOD in the Sacramento Region. In order to create something practical that will ultimately be useful to developers, we will want to create incentives to develop where the region needs it most and remove barriers for the development community. While there are many inspiring models in place today, we want to be sure that what we pursue takes into consideration precisely what the current conditions are for TOD and affordable housing development so that anything new is as unique and promising as Sacramento, and ultimately that it is useful to developers. To understand the current context from a financial perspective, we conducted interviews of developers and other key actors about the game and the gaps—how they create financial feasibility for their projects currently and what they perceive to be the biggest challenges in that process. We also looked at existing financial barriers that are inhibiting the development of affordable homes near existing transit nodes in the region. This memo summarizes what we learned. A subsequent memo will outline alternative solutions.

Sacramento area developers are fairly consistent in their concerns about the barriers to working towards the creation of new and enhancement of Sacramento area’s existing transit-oriented nodes. That said, despite frustrations and barriers, it is still desirable for many developers to do so because they recognize there is increasing market demand to live in proximity to transit resources. The following lists the main take-aways from our interviews:

1. There is insufficient local policy support for affordable housing near transit. For example, funding sources such as City impact fees are inadequate to cover the true costs of development;
2. Developers, especially the market rate developers, have major concerns about some of the nodes and neighborhoods as places to invest because there are not enough other signs of investment—particularly public infrastructure and public place investments.
3. There is a frustrating inability of affordable housing developers to secure land in advance of project financing or to acquire unrestricted affordable housing to make it permanently affordable.
4. While there isn’t limited land supply, there is relatively high cost for properties.

The following lists what we derived are the primary financial gaps:
5. Developers need early predevelopment forgivable and/or very low interest;
6. Infrastructure and remediate sources of funding that do exist are very limited, held by agencies that developers don’t have experience working with and therefore are generally not going to support projects that could make affordable housing and community facilities more feasible.
7. There isn’t a funding source for acquisition that lends itself well to a long term holds. While SHRA is still doing some land purchase and RFP’ing out, it is very limited. With these, SHRA will handily continue to identify where public and quasi-public owned land exists and will negotiate land discounts and sales.

8. Debt/equity combo 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 to make equitable TOD feasible. Equity sources for affordable housing do not exist or if they did, would be at rates unachievable of for affordable housing.

9. Permanent sources historically have been driven by use of both the 9% (competitive, deeper subsidy) and 4% (less competitive, shallow subsidy) LIHTC federal programs. California offered enough additional subsidies, primarily through redevelopment, to make production and preservation possible through both programs at a scale realized in few if any other states. With the end of redevelopment, developers are placing a higher burden on greatly limited secondary subsidy programs to make both LIHTC types happen, with the 4% credit largely being relegated to rehabilitation going forward.
   - Redevelopment elimination, implications for the loss of primary subsidy;
   - Higher burden on HOME, CBDG and Section 8 to fill gaps previously filled by Redevelopment, while these federal programs are also gradually declining;

**Observations and Questions**

We have some lingering observations about the existing context for developing TOD, irrespective of financial gaps, and questions based on what we learned. These are listed below:

**Transitioning to a transit oriented region**
- How can we collectively move the region from a culture wherein generally transit is used primarily by select commuters and homeless people?
- The transit system is not extensive enough to allow people to live without a car and while the parking is so affordable and traffic manageable, there isn’t a compelling reason for people who have been habituated to cars to choose transit instead.
- How should TOD be defined in Sacramento? Is frequency of the transit service the only factor?
- How should connectivity between places such as home and work also be factored into our considerations around prioritizing nodes?
- Including bus and rail is important. Noting that many BRT efforts to increase ridership have failed in the past, how many bus lines would qualify as high frequency?
- Rail stops are often along highways or in rail right of ways, not obviously attractive for residential. The Folsom/North Sacramento line is always going to be hard. Is there a way to enhance these areas as commercial destinations and activate the nodes with intentional commercial developments (with things such as Business Improvement Districts and connectivity through urban design interventions)?
- Sacramento is flat and there’s a big biking culture. How can we leverage this mode for additional improvements?

**Creating transit-oriented communities**
- We need to think about creating neighborhoods, not one-off affordable housing deals near transit.
- Safe bike, pedestrian routes are a key concern. There is an opportunity to work more deeply and extensively on bike/pedestrian improvements like adding sidewalks and bulb outs, particularly where there are huge intersections in transit-rich locations.
- Most transit nodes lack immediate connection to amenities. Some transit stops are in locations too far from amenities to be competitive for 9% LIHTC and other subsidies.
- How can the Sacramento Kings Arena be an opportunity for creating equitable TOD?

It seems that demonstrating that high-quality, high-functioning, well-designed, mixed-income, mixed-use TOD can work in 2-3 places in the region could catalyze a new wave of TOD. This could address the issues raised above, and begin to tip the region towards valuing its transit network and the merits of TOD. Perhaps now is the perfect opportunity to do so while the market is warm and there is some policy momentum with the Blueprint for Sustainable Communities is complete.

**Market Concerns and Opportunities**

Note that the following is a summary of salient points shared during our interviews but in a few instances the perspectives of our interviewees don’t align. Despite the occasional conflict we thought all of the following were worthy of sharing:

- The culture of sprawl is persistent and difficult to break given that land is cheap and flat.
- The median home price in the region is $200,000. It costs 50% more than the median home price to produce an affordable home – for rent or for sale.
- Home prices are rising again and the market is recovering but still has a long way to go.
- The developers have concern that it’s possible to create affordable and high end market rate homes; however, there’s a glaring lack of resources for workforce housing so these residents get pushed to low-cost housing in locations where there are high transportation costs in the suburbs.
- Low-income communities of color live along bus lines in the County – not near rail. Examples include Stockton Blvd. wherein the neighborhoods have been largely ignored by those interested in TOD.
- Lots of kids living in TOD (La Valentina – 59 of 146 residents are kids, many multi-kid households), 53% of adults at La Valentina are under 30.
- There is a big biking culture. Homes could be created that cater to the markets for people who like to commute by bike.
- Max market rents are $2.00/SF – market rate units generally don’t make sense. Tax credit housing does make sense, but the currently available subsidy isn’t sufficient.
- In Sacramento, the economics are very poor for any kind of MF construction, but especially TOD because the costs are higher with the higher density.

**Promising Policy Alignment**

There are programs and policies that set the basis for including affordable homes in transit oriented development. These policies can create momentum but also, for the sake of leveraging philanthropic and/or private investment in a financial tool, it signals market and political readiness. (Note: some of these policies still warrant further examination – for example, some are expiring and some are purely problematic so it is hard to say they could be aligned in any sort of helpful way.)

- Federal – Choice Neighborhood Planning Grant received by SHRA Housing Agency for Twin Rivers (16th Street Station?)
• State - Redevelopment Law – now defunct, potential for new state sources including HTF to a
have a transit focus – Sacramento’s interest should be to watch closely and make sure TOD
definition is appropriate for the region, not just for the biggest metros
• State - Proposition 1 C – infrastructure – gone?
• State – Proposition 13 – cost of prevailing wage requirements is $30,000 to $80,000 a door (pre
paid property taxes) – this is an example of a problem, politically maybe we don’t call it that but
it’s a major drive of high cost
• State – Cal Reuse Program – expiring?
• State – Mental health services act funds that provide subsidy for PSH – being used by Mercy and
Mutual – expiring?
• State – law requires regional planning agencies to lead getting adequate zoning in place to meet
housing demand looking ahead at 8 year demand, segments need into income levels
• State – fair share housing policies designate that affordable housing must be spread around the
region
• State – SB 375 requires that housing allocation plans meet sustainable communities strategy
• The above state policies conflict – high quality transit tends to serve urban areas better, so if you
want people to have access to quality transit you’re often confining them to currently lower
income neighborhoods
• State – TOD qualifies for CEQA relief – need to research or add exactly what this means
• Regional – Use of the growth boundary is a change that’s needed to drive all development near
transit – just approved a huge development outside the boundary
• Regional – High interest in better aligning SACOG planning and infrastructure grant programs,
caveat to be careful about triggering prevailing wage if SACOG funds are used, SACOG
community design funding program releases funds every 2 years using federal and state
transportation funds, criteria are around smart growth, can do a small amount of planning but
mostly construction, has to stay in the public right of way, 75% is very early phase years before
vertical construction, $15 - $20 M pot
• County – waiving fees is rare, helpful but fees aren’t really prohibitive
• County – IZO (more aggressive than the City’s)
• City and County – typically have been able to wait to be “last in” funders, in this environment
developers need them to be first in
• Local – Inclusionary Zoning Ordinances – Sacramento, W. Sacramento, Sacramento’s IZO being
reconsidered as part of housing element update currently underway, Sacramento’s mixed
income housing ordinance (IZO/IHO) only applies to new growth, large vacant tracts, goal was to
ensure 15% affordable housing, must build on site), important to look closely at Sacramento’s
IZO – didn’t have to be strong when redevelopment created heavier requirement, may need to
be stronger now, however several interviewees had opposite perspective – IZO is an
impediment
IZO – good in intent problem in reality – concentrates poverty building by building, buildings are
gated, big wide roads create moats between market and affordable developments – examples
at Rail Yards – need to not allow opt out payments
• Local – linkage fees/housing trust fund – are there additional fees that could be added or is it
not possible in the current environment?
• Local – Consolidated plan – includes access to transit, looked at assets and amenities near
transit
• Local - Zoning policies are not often a major impediment. Most TOD has been zoned
appropriately.
Suggestions for Considering Next Steps in Meeting the Need for Financial Tools

The Sacramento area is an environment where affordable housing developers largely depended on SHRA and others to deliver ready-to-build sites with secondary subsidy. In an environment where that is no longer, at least temporarily the case, what should we do? The following points outline some solutions:

- Target preservation, rehab or redevelopment along transit corridors for developers willing or able to take risk, subsidized and unsubsidized both important, transit proximity should be the focus.
- Credit enhance GSAF – remembering that developers are very cautious about acquiring given lack of reliability of take out, including clean up, infrastructure and permanent – don’t create a whole new leveraged fund when we can build off of this, potentially include predevelopment, remediation and infrastructure as part of the GSAF package.
- Align SACOG’s programs to better support planning and early stage predevelopment including infrastructure, site assembly, safety issues – SACOG’s grants programs appear to not be transparent to developers.
- Test long term financing options – invest in a few high value opportunities (bankable developers have other access to acquisition was heard a few times).
- Land bank entity options – several noted that they still need SHRA like function of assembling sites so that they don’t take them down until they know at least 50 units are feasible.
- Understand inventory of publicly owned land, long term hold and release strategy for equitable development – there are a handful of well known RT sites, high priority parking lots were let out to developers planning dense development pre-recession, opportunity now to revisit those sites, perception that FTA barriers are too high may be overcome.
- Transit agency owned land – yes, some existing stops with sizable surface parking, no precedent for getting to disposition.
- RT incentive programs.
- Value capture.
- Subsidize transit passes.
- SHRA opportunity to ensure that alignment for HOME and PB S8 near transit happens.
- Look at FP 4% LIHTC developer models that have been replicated across the region and figure how to make them work near transit because they are relatively low subsidy.
- Consider creating a joint powers authority with RT to help them get funding through tax increment – take a regional approach, start to generate funds.
- From Todd at CADA – the city identified 5 things that make the TOD environment/framework possible in Sacramento:
  1. Infrastructure.
  2. Zoning – major changes being implemented now.
  3. Environmental, remediation.
  4. Urban design guidelines that support the zoning.
  5. A comprehensive financing plan that prioritizes implementation one step at a time.
Conclusions
Every region has a story and a trajectory it has been on with TOD. We cannot possibly tell Sacramento exactly what yours should be, but we have some hunches about where you could turn it. Sometimes TOD funds are a response to rapidly growing systems and a need to get ahead of speculation and displacement. Sometimes they are a response to a finite amount of land left around a system or they are recognizing the changing financing environment for affordable housing in a region and seek to be one complementary new solution. In the case of Sacramento, it is all three reasons.

Our experience in tells us that a stand alone fund may eventually be a part of the solution in the region. However, there are also important short-term opportunities to aggregate funds that can complement already existing “Funds” and get more done and faster in Sacramento. The subsequent memo will explore these opportunities and pose scenarios.
MEMO APPENDIX

Interviewees
1. Traci Canfield, Regional Transit
2. John Chan, US Bank
3. Greg Chew, SACOG
4. Joe Concannon, SACOG
5. Rosemary Covington, Regional Transit
6. Cathy Creswell, Boardmember, Sacramento Housing Alliance
7. Stephen Daus, Mercy Housing
8. Steven Eggert, St. Anton
9. Mark Friedman, Fulcrum Properties
10. Rachel Iskow, Mutual Housing of Sacramento
11. Meea Kang, Domus Development
12. Stan Keasling, Rural Community Assistance Corporation
13. Todd Leon, CADA
14. Mike McKeever, SACOG
15. Desmond Parrington, City of Sacramento
16. Geoffrey Ross, SHRA
17. Sharon Sprowls, SACOG
18. Christine Weichert, SHRA
19. Michael Wiley, Regional Transit

Notes on Specific Sites Discussed
- 7th and H Street – Mercy Housing, recently opened, 150 unit, 50% PSH, ground floor FQHC and two vacant retail bays, in Rail yards redevelopment vicinity, 2 rail lines, 3 stops within 2 blocks, downtown, good bus service too, identified by SHRA, purchased and RFPed out, $125 k per unit subsidy from redevelopment, SHRA had to buy the site from the City, was contaminated, next to a power station, massive clean up and infrastructure, total development cost exceeded $300 k per unit – and most units are studios
- 13th Street Station – CADA development, also RT service office. CADA has ongoing opportunities along R ST, moving towards 16th Street, where to focus is contentious – they are focusing on vacant blocks, creating a safe route to the Safeway, others want them to focus on revitalization of occupied properties
- 16th Street Station – CADA development, recently completed 116 units, took 15 years from start to finish, was a brown field, mixed use, new construction, rehab component with historic credits, AND affordable housing. Affordable housing is a 9% deal, 75% affordable, 13,000 square feet of retail, ½ block from the station. Sources are not replicable today – included HCD from 1 C, historic credits, and self-subsidy. Total development cost = $42 M (over $300 k per unit). Before development began over 6 M in streetscape and infrastructure improvements were made – these investments had a huge impact on creating the place before the deals could be done. Infrastructure funding came from SACOG, fed funds and through CADA’s tax increment ability (which they retained despite changes at the state level last year).
- 16th Street towards 18th Street, CADA Gateway project – CADA is just finishing an apartment development – 2 block from station, ground floor retail and 84 market rate apartments, also working on a 50 unit market rate deal – highest end rents are $2.00/SF
- 65th Street Station – commercial development with 25% devoted to housing, includes student housing build 7 – 9 years ago
• Curtis Park Village – large state grants from four sources triggers affordable housing component, 72 acres, brown field, established affluent neighborhood, Petrovich development company leading, mixed use development with single family component (located in one of few neighborhoods with demand), townhome and senior multifamily affordable rental (90 units, Bridge Housing, 9% credits)

• Downtown Rail yards – large state grants from four sources triggers affordable housing, component, 240 acres, brown field, Sacramento Valley Station (Amtrak), light rail – terminus of gold line, start of green line (which just goes to Township 9), aggressive plan pre market crash, gamut of funding triggered 1,100 unit residential target include approximately 260 affordable units (which is inclusive of the City’s requirements), a lot of the infrastructure is done but market doesn’t exist for vertical construction, some land owned by City, some by REIT

• Folsom – progressive developer, supportive city, terminus of light rail, good bike/pedestrian connections, affluent, successful retail, sued by Sacramento Housing Alliance for eliminating IZO

• La Valentina – 5 parcels acquired over a long period of time, was a brown field owned by SHRA, little over an acre, 81 units of affordable housing, 63 in a large building with community space, ground floor retail and town homes for families across the street, 9% credit, built less than required parking, in Sacramento’s oldest residential neighborhood, completed in 2012, $7 M ($111,000 per unit) from redevelopment, seller carry back on land, SHRA managed clean up, 12th street station location – dangerous stop, heavy traffic, homeless hangout, has improved with housing presence, but station is located in middle of the road, drug and safety issues continue – serious enough to be holding residents back from using the system, conducted resident survey and found lack of use of system because of safety, lack of connectivity to where people need to go and too expensive – some are just fine with it, build ½ of parking requirement

• Phoenix Park – SHRA HA owned, large condo conversion with PB S8 supporting majority of units

• Sacramento State (is this the same as 65th?) – rail station built ½ mile from campus, too far, under utilized, student housing at rail stop

• South Sacramento station – prime spot for a 4% new construction deal

• St. Anton just completed a 204 unit 4% tax credit and bond deal in Elk Grove. The land was only $500,000 but we still needed $10,000,000 in subsidy.

• Stockton Blvd – 7 acre bus access site, vacant, under nonprofit ownership, has a state predevelopment loan

• Township 9 – River District, north of rail yards, 2,100 total units with 180 unit affordable, 4% credit and bond property includes 4 M in city subsidy (awarded before the end of redevelopment), 30 M in infrastructure from Prop 1 C, Escobel master developer, Jon Stuart Companies affordable developer, some said line was extended prematurely, has low ridership, concern that affordable housing is an island

• Watt Ave – unsubsidized acquisition rehab opportunity, $6 cost to buy and hold, wait for new subsidy to be available for rehab, need to reduce overcrowding, address crime and safety – many deals like this exist across the region

• West Sacramento redevelopment of a former agricultural/industrial site, planned for mixed use TOD. Committed a portion of TIF to extend the streetcar into the redevelopment area but no one lives there now. Chicken and egg problem of can’t pay for transit expansion now, when no increment is being generated, yet to build housing first would require overbuilding on parking because there is no transit. Looking at interim transit solutions. Breaking ground in May, 2013.
June 27, 2013

MEMO

To: Sacramento Area Equitable TOD Collaborative
From: Melinda Pollack and Heather Hood, Enterprise Community Partners

Re: Recommendations for Framework and Operational Structure for a Sacramento Transit-Oriented Communities Fund

The Center for Transit-Oriented Development (CTOD), the Low-income Investment Fund (LIIF), and Enterprise Community Partners (Enterprise) – referred to as “the team” – are engaged to support the Sacramento Area Equitable TOD Collaborative in determining their future activities to support equitable development near regional transit. To date, the team has facilitated research, discussion, and documentation to define affordable TOD needs, recommend next steps in support of equitable TOD implementation and ascertained the need for innovative TOD financing tools. The purpose of this memo is to build upon previous work and provide recommendations, priorities and process for moving forward.

Goals and objectives of eTOD financing tools for the Sacramento Region

The primary goal of the financing tools and initiatives to be instigated by the Sacramento Area Equitable TOD Collaborative is to stimulate the creation and preservation of affordable housing and community facilities near transit. The financing tools and initiatives can be significant beyond their direct outcome of housing and community facilities produced, often creating a model for collaboration across public, private and philanthropic sectors and effectively taking action with environmental impact (GHG and VMT reduction), job creation, and improvements in human health (best described in supporting documents through obesity reduction).

An additional goal for the Sacramento Area Equitable TOD Collaborative is to support the growing culture of TOD within Sacramento by modeling good equitable TOD. As noted in previous deliverables, the region continues to face numerous barriers to the perception that equitable TOD cannot succeed in the region. However, the team believes that greater regional discussion and successful models will clarify opaque misunderstandings about this valuable development model.

Summary of need for affordable housing

There is tremendous need for affordable housing near transit in the Sacramento Region. CTOD estimates that, in order to meet the region’s Sustainable Communities Strategy, more than one-fifth of new housing units – approximately 71,000 units – will need to be built near transit stations. According to the Regional Housing Needs Allocation, by 2021 58% of new housing units across the region – over 61,000 units – will need to be affordable to very low-, low-, and moderate-income households.

Like most regions, housing and transportation costs often outpace growth in wages, prompting the need for long-term equitable housing strategies. As CTOD notes, much of the opportunity, demand, and plans
for housing development near transit is targeted for the central core of Sacramento and West Sacramento. The team’s recommendations consider this likelihood but also consider the region more broadly.

**Summary of need for a coordinated approach to implementing ETOD**

Per CTOD’s work, much of the region’s projected growth is in the urban core of Sacramento and West Sacramento, where much of the region’s affordable housing is located. This trend hints at pressure on existing affordable housing in the core in coming years if not already, thereby prompting the need for a coordinated policy that balances housing preservation, new construction, and community facilities.

The team recommends that the Sacramento Area Equitable TOD Collaborative address three critical issues:

- **Policy**: How can the Equitable TOD Collaborative and its partners influence the state, regional, and local policymakers to facilitate a supportive, straightforward environment for equitable TOD before development occurs?
- **Land**: How can the Equitable TOD Collaborative and its partners creatively use land as equity to control current and future uses of TOD sites, while also helping to manage the costs of creating equitable TOD?
- **Financing**: How can the Equitable TOD Collaborative and its partners use grants, equity, and loans already available in the region, creating new resources that will make the existing more effective to deploy in the Sacramento Region?

**Existing opportunities**

Before sourcing financing tools and solutions to fill the gap for equitable TOD, it’s critical to understand the related factors that drive the complexities and costs of building and preserving equitable TOD. The team’s work sourced several ways that the Sacramento Area Equitable TOD Collaborative and its partners can effectively address the three critical issues above. With this in mind, we describe existing opportunities for the Equitable TOD Collaborative and its partners in three major categories. Policy, Land and Financing.

*Opportunities category 1: Policy*

Federal legislation like the current transportation bill (MAP-21), the Federal Transit Administration’s (FTA) joint development guidelines (noted in category 2 below), and FTA’s New Starts and Small Starts programs drive the ability of the Sacramento Area Council of Governments (SACOG), the Sacramento Region Transit District (RT), and the California Department of Transportation (CalTrans) to engage in addressing equitable TOD with far-reaching solutions, including favorable land disposition and allocation of funding. (Appendix 1 reviews recent changes to the New Starts and Small Starts regulations that would apply to the Sacramento Region if RTD pursued federal funding.)

Most significant to the work of the Sacramento Area Equitable TOD Collaborative, the New Starts and Small Starts rules now consider affordable housing under two of six project-justification criteria. While the implications of the changes are still untested, our sense is that the changes incent a much higher level of coordination between housing and transportation funders and providers than previously experienced, positioning the Sacramento Area Equitable TOD Collaborative in a pivotal coordination role to help the region better compete for resources.
At the state level, agencies are consolidating (including HCD and the Cal HFA), and the elimination of redevelopment agencies substantially cut funding for affordable housing development and preservation throughout California. However, the state legislature is considering programs that would substitute for lost funds to some extent, and many of these programs would have a TOD focus. Several developers suggested during the team’s interviews that the Equitable TOD Collaborative monitor and help to define potential funding sources that would explicitly suit the Sacramento Region rather than favor regions with more extensive transit systems. Additionally at the state level, while new funding programs are being considered, it’s also important to act quickly to access any remaining funds available in sun setting programs including the infill grant and TOD programs.

Regionally, SACOG’s support of infrastructure planning and construction plays an important role in community development, but developers are unsure whether or how they can access these funds and whether SACOG allocates infrastructure resources in coordination with plans for affordable housing and community facilities. Appendix 2 provides relevant examples on how SACOG might consider adapting its planning resources to improve alignment with equitable TOD activities.

At the City level, the City of Sacramento and its partners in the region can address policies that impact the nature and cost of development, focusing on a reduction or deferral for impact fees and permitting, and changes in the inclusionary housing/zoning ordinances (IHO/IZO). (Note that while the team heard wide support for reducing development fees, consensus does not exist for what types of changes to IHO/IZO policies are most likely to be impactful – a wide variety of opinions exist on this topic.)

Opportunities Category 2: Land

SACOG’s ample data about publicly owned land near transit depicts a significant pipeline for new development that can be the foundation for a regional strategy. Public land assembly serves as an important first step in pre-development, because government can patiently hold it at limited to no cost while developers assemble financing. Once financing is in place, government can discount or lease the land with some control over its development.

Prior to the housing market collapse of 2007, RT was working to sell transit-oriented property, highlighting the agency’s commitment to TOD. New FTA guidance regarding joint development should enhance RTD’s continued work to stimulate. Moreover, RTD may wish to discount, transfer, or donate land in order to incent equitable TOD. The FTA guidance released earlier this year helps to clarify that:

- While FTA joint development guidelines do not require transit agencies to justify a dollar-for-dollar discount based on future increases in fare revenue, the FTA has accepted the concept as one way to show that a transit agency is getting a fair return on the project.
- It is possible for transit agencies to provide land to a project at minimal cost upfront in exchange for a share of future revenues generated by the project.
- 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.

Beyond looking at publicly owned land as a resource, discussion with Collaborative members has indicated a strong interest in aligning this effort with parallel efforts related to health in the region, including most of the major health systems with a local presence. A tangible step in aligning efforts
would be to inventory the land a property holdings of the health systems near transit, and identify development opportunities on their property.

*Opportunities Category 3: Financing*

The team reviewed financing available in the development process, looking first at early-stage financing – e.g., pre-development, acquisition, remediation, and infrastructure – then at bridge financing, and finally at permanent financing – both tax credits and debt for housing and community facilities.

Early stage:
Interviews relayed that developers often pay for pre-development through their working capital reserves, pre-development loans or lines of credit from CDFIs, and, less often, combined acquisition/pre-development products. They noted, too, that no pre-development funds specifically target equitable TOD’s unique needs, including longer and more costly pre-development periods and complex partnerships. While developers can find the funds for acquisition, predevelopment resources are scarce.

Prior to eliminating redevelopment authorities, regional developers traditionally took little risk when purchasing land for affordable housing, largely because the Sacramento Housing and Redevelopment SHRA (SHRA) took ownership and transferred land at the start of construction. With fewer resources today, though, the development community faces a new reality.

Despite these challenges, several developers remain interested in debt sources that could support preservation through a number of avenues, including purchasing existing subsidized and affordable-to-market multifamily properties. Some developers have used community development financing institutions (CDFIs), including LIIF, Enterprise, RCAC, and a NeighborWorks affiliate, for loans for these types of properties and would do so again. During interviews with developers, the Golden State Acquisition Fund (GSAF) drew particular interest, but none have used it yet.

While waiting for the state legislature to create new subsidies, few developers are considering acquiring property for new construction. Those developers who are considering new construction point to CDFI loans or GSAF, but all developers expressed concern about risk, cost of funding, and cost of holding properties. These costs typically fall into both the predevelopment and acquisition categories.

As noted above, affordable housing developers in the region traditionally have not taken on remediation and infrastructure work. They recognize that it may be necessary for them to acquire both skills and access to capital for these processed in the future.

Bridge:
Few developers expressed interest in bridge financing tools, likely due to their desire to replicate existing models for financing affordable housing in the region, which typically haven’t included bridge financing. The one exception was for developers who are seeking to focus on acquiring existing operating multifamily rental properties. These developers that acquisition financing that can stay in place for five or more years may be useful given the time it may take to secure permanent financing for the properties.

Permanent financing:
Developers in the Sacramento Region rely upon the Low-income Housing Tax Credit (LIHTC). In the past they’ve utilized both the high subsidy, competitive, 9% LIHTC and the lower subsidy, less competitive 4%
LIHTC coupled with federal, state and local subsidy dollars, including those previously provided through state redevelopment agencies. LIHTC pricing in the Sacramento Region – or the level of subsidy on the dollar that developers receive in exchange for their credit – has continued to be fairly strong in comparison with comparable regions around the country.

During the developer interview process the team questioned whether it was possible for the Equitable TOD Collaborative to influence the region’s lack of permanent financing subsidy through direct allocations of funding sourced by the Equitable TOD Collaborative. Generally our sense was that this gap is so large, that it wouldn’t be meaningful to try to address through financing solutions, but rather through the policy solutions suggested above.

National examples:
Throughout the process, the team has worked to share models from around the country, particularly the western states that help to inform the Equitable TOD Collaborative on their next steps. Some of the models that have been highlighted that the Equitable TOD Collaborative will likely seek to follow over time include:

- The $15 million Denver TOD Fund, seeded by the City of Denver, Enterprise, the Urban Land Conservancy, and Colorado’s HFA and a coalition of foundations, banks and CDFIs. This effort is now in its third year and has a pipeline of over 600 homes and several community facilities, several under construction. The Denver region is important because of its comparable size and results in a resource constrained environment. See Appendix 3 for further detail.

- The $50 million Bay Area TOAH Fund, seeded by the Metropolitan Transportation Commission and a network of foundations, banks and CDFIs. This effort continues to build a pipeline across the highly competitive Bay Area region. The Bay Area is important because of its proximity, the shared interest of many stakeholders in both the Bay Area and Sacramento, and the innovative leadership of a regional agency in seeding the effort. See Appendix 3 for further detail.

- Los Angeles County benefits from access to three acquisition funds – a City fund, a County fund and the Golden State Acquisition Fund (GSAF). The team recently completed a study for the region’s transit agency and two major foundations (which also have Sacramento interest), with a similar scope to the work undertaken for the Equitable TOD Collaborative in Sacramento. Our findings were very similar – particularly that the region can focus on better aligning use of funds through policy, teeing up a long term pipeline with use of publicly owned land, and last, can get the best return for its investment by complementing already existing sources of funding by filling major gaps in the early stages of the development process. We will seek to share this study as it becomes publicly available.
Financing scenarios considered:
There is not yet a comprehensive, multi-sector system for deeply planning for key transit nodes in ways that can activate implementation. Instituting one would allow for new partnerships, but more importantly a way for tackling the visioning, coordination, collaboration, questions, exploration and negotiations with stakeholders working in tandem. For all the following three fund scenarios, we recommend SACOG, working closely with other key agencies such as RT, create a grant program that will inspire teamwork and planning in 3-6 key nodes. We think that the Golden State Acquisition Fund currently provides ample resources for property acquisition and yet, because other types of loan products are needed, a low-interest, patient loan or equity fund should be created and be available to advance the implementation of the plans for nodes when they are ready for implementation. Additionally, we recommend reserving funds in an additional grant pool for the kinds of implementation costs that are difficult to finance and yet can make all the difference in a transit oriented community being more than just infrastructure and housing –things like tenant improvements in commercial space for child care facilities or health clinics, the establishment of business improvement districts, storefront improvements, play equipment in pocket parks, etc.

The Sacramento area’s present case provided three scenarios for loan or equity funds that the team considered in detail following the exploratory process:

- Scenario 1 - institute a stand-alone equitable TOD fund for acquisition, pre-development, bridge, and semi-permanent financing
- Scenario 2 - create a combined pre-development/infrastructure/remediation fund for equitable TOD
- Scenario 3 - establish a credit-enhancing fund to complement existing acquisition financing for equitable TOD.

The team recommends further exploring Scenarios 2 and 3. We make this recommendation because we found that ample funds likely exist in the region at present for acquisition, however, few resources exist to help developers mitigate the numerous risks that accompany the acquisition of property near transit. To jumpstart a meaningful pipeline of equitable TOD in the current environment, a continuum of financing tools that help developers to take on the risk and manage equitable TOD could have tremendous impact in the region. We refer to our recommendation as the Sacramento TOD Equity Fund, because the nature of the capital that would be pooled would be equity like product – potentially being lent to developers at a modest level of interest, but otherwise taking risk along with them.

Summary of Financing Recommendations
The team recommends establishing a ~$5 million competitive grant program for teams to conduct planning at 3-6 key transit nodes.

The team recommends establishing a ~$25 million loan or equity fund with capacity to grow. This ‘Sacramento TOD Equity Fund’ would support the management of pre-development expenses, complement remediation and infrastructure funding, and support GSAF or other pre-development loan funds by buying down the cost of capital interest rates and closing loan-to-value gaps. The Fund would seek investors who can contribute forgivable, non-recourse funds between $500,000 and $5 million with an expectation of 0% to 2% rate of return over 10 years. This Sacramento TOD Equity Fund could blend a variety of regional funding from government, quasi-government, philanthropic, and corporate resources intended to jumpstart the creation and preservation of affordable housing and community facilities in California’s Sacramento Region. Various parties could access the Loan Fund, including government,
quasi-government, land banks, for- and non-profit partner holding organizations (similar to Enterprise’s relationship with the Urban Land Conservancy in Denver), developers, and combinations thereof.

The team recommends establishing a ~$10 million competitive grant program for key components that will help to complete transit-oriented communities once development is underway.

It is important for the funds’ managers to have both a familiarity with the region’s development community and an awareness of national financing trends. An intermediary, like a CDFI, with a local or national presence, a partnership between local and national CDFIs, or a government agency that operates at the regional scale could effectively manage the program.

**Recommended Next Steps**

The Sacramento Area Equitable TOD Collaborative should discuss the concept of the Fund with prospective government, philanthropic, healthcare, and financial partners in order to identify a long-term regional champion – perhaps SACOG, SHRA, or both. At this preliminary stage, it’s important to foster champions for the fund among broadly interested stakeholders to spread not only the risk but the investment.

While pursuing the Funds, the Equitable TOD Collaborative could work further with RT to identify possible sites for implementation in the next three years, helping RT to bring the capacity needed to lease or sell their properties in an efficient manor.
MEMO

8/14/13

To: Geoffrey Ross, SHRA and the Sacramento Equitable TOD Collaborative
From: Heather Hood, Melinda Pollack and Noni Ramos, Enterprise Community Partners, and Brian Prater, LIIF
Re: Financial Tool to Support Transit Oriented Communities in the Sacramento Region

Enterprise Community Partners (Enterprise), the Center for Transit-Oriented Development (CTOD), the Low-income Investment Fund (LIIF), and—referred to as “the team”—have been engaged since early 2013 to support the Sacramento Area Equitable TOD Collaborative in determining their future activities to support equitable development near regional transit. To date, the team has facilitated research, discussion, and documentation to define affordable TOD needs, recommend next steps in support of equitable TOD implementation and ascertained the need for innovative TOD financing tools. The purpose of this outline is to build upon previous work and provide a draft system for financing equitable TOD could look like and in turn, spur conversation and responses.

Working definition of equitable TOD in Sacramento
Equitable transit oriented communities are places that provide choices for residents at every income level by offering safe, walkable 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 uses that in combination, encourages increases in transit ridership and provides ways to access daily goods and services.

Goals and objectives of equitable TOD financing tools for the Sacramento Region
The primary goal of the financing tools and initiatives to be explored and refined by the Sacramento Area Equitable TOD Collaborative is to stimulate the creation and preservation of affordable housing and community facilities near transit. Financing tools and initiatives can be significant beyond their direct outcome of housing and community facilities produced, often creating a model for collaboration across public, private and philanthropic sectors and effectively advancing goals such as environmental impacts (GHG and VMT reduction), job creation, and improvements in human health.

An additional goal for the Sacramento Area Equitable TOD Collaborative through financing tools and initiatives is to support the growing culture of TOD within Sacramento by modeling quality equitable TOD. As noted in previous deliverables, the region continues to face numerous barriers, including the perception that equitable TOD cannot succeed in the region. However, the team believes that greater regional discussion will clarify opaque misunderstandings about this valuable development model.

Steps to developing a financial tool
The team has worked long enough on similar efforts around the country to know that we cannot skip steps in the process of creating financial tools. Any process that depends on the interplay of policy, investors, market trends and strong cross-sector partnerships relies on trust and a defensible, believable set of thinking about how priorities are set. In the process to date, there has not been sufficient sifting
through priorities—such as geographies—yet or thought given to which interventions would make the most sense in different types of transit oriented community—based on things like current community assets, market conditions or need. We hope to assist the Equitable TOD Collaborative and other stakeholders, including potential investors, sort through a prioritization process next. Meanwhile, to begin the iterative process of what would be created and meet the goals of SHRA’s HUD Challenge Grant, the following sketch and outline describe the possibilities.

The following sketch was introduced by the team to the Equitable TOD Collaborative at its July meeting. It has since been vetted between Enterprise and LIIF staff to elaborate and consider its vulnerabilities from an investment perspective. Many questions remain about what the market is for infill and affordable housing; let alone what the statewide prospects are around public subsidy for affordable housing and infrastructure. Nonetheless, assuming many of these questions can satisfactorily answered in 2014, the sketch remains relevant.

A few key notes to keep in mind:

1. As the Equitable TOD Collaborative has discussed, TOD is much more complicated than funding one property. It is much more multifaceted. So while creating affordable homes near transit is essential to managing gentrification and creating opportunities for low- and moderate-income residents, we do not want the success to end there. We aspire to use affordable housing in a variety of ways, depending on the micro-market it’s in. In some places, it will spur the market and be a key component of making a complete community—perhaps supplying one of the first buildings that include retail for local businesses or services on the ground floor. In other places, it will be integrated into an otherwise tough-to-develop site in an existing community that has many of the assets residents seek.

2. It is important to recognize that every node is distinct—its market, connectivity to jobs, the stakeholders and demographics, assets, etc. Some are in more need of basic interventions like bike/pedestrian improvements or storefront improvements; some in more tier two interventions such as key infill development and/or preservation of key properties; and others in need of fuller interventions that could entail new infrastructure, new buildings and/or the upgrades to the human capital that make TOD work such as business improvement districts.

3. Creating great communities near transit means making hard choices about how and where to invest in the region. The team thinks it is essential in the Sacramento Region to get a few communities done exceptionally well—creating places that will be models for that will inspire future appropriation of methods and components rather than to do bits of various types of investments throughout the region. These focused approaches can jumpstart the Sacramento market’s movement towards TOD.

The system the team has designed is meant to address these notes. What we will need to do is identify develop criteria about where—what TPAs and/or transit corridors—to prioritize initial investments; what level of investments will be available; and what qualities and skills the people, organizations and teams for each place are essential for successful execution of planning and shepherding implementation.
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:

**Neighborhood Criteria**
- Transit Priority Area
- Mixed income population or low-income population
- Access to quality jobs
- High or low opportunity area via Kirwin Institute (FORD)

**Planning Team Criteria**
- Ability to make decisions/political clout
- What is each member’s skill contribution? Banker, lawyer, planner, employer, etc
- 

**What makes Neighborhoods and Teams Competitive?**
- Holistic and thoughtful vision shared by majority
- ?
- ?

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 teams working in places with the following criteria:
Property Criteria
- Quality of Transit Access
- Catalytic site that will lead to additional investment in a neighborhood
- Alternate uses or potential for multiple project configurations (mixed income, mixed use, etc)
- Part of a larger corridor plan, connected to comp development of neighborhood, etc
- Increasing, stable or declining real estate submarket

Project Criteria
- Financial feasibility
- Amount of subsidy needed
- Alignment with funding priorities (local and state)

Borrower Criteria
- Organizational Capacity
- Financial Strength
- 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
- What level of soft or hard commitments do they have from key financing sources?
- Near term possibility of financing assembly and construction start. Vet timeline
- Public official and community support
- ?

Criteria for the Entity Executing the Activity
- ?
- ?
- ?
GLOSSARY OF TERMS

Equitable Transit Oriented Development (or eTOD) – 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 walk, bike, and take transit to education opportunities, jobs, shops and services.

TOD Area – 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 bike and walkable communities that allow for easy access and integration with the transit system.

Affordable Housing – housing that costs no more than 30% of a household’s income within these ranges and Area Medium Income (AMI) levels:\(^ {14} \):

- **Moderate Income** (also referred to as Workforce Housing) – up to $64K for one person or $91K for four (at or below 120% of AMI);
- **Low-income** – up to $43K for one person or $61K for four (at or below 80% of AMI);
- **Very low-income** – up to $27K for one or $38K for four (at or below 50% AMI);
- **Extremely low-income** – up to $16K for one or $23K for four (at or below 30% of AMI);

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 Act credits (CRA)\(^ {15} \). 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, and other 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.

Take Out Source – typically means a repayment source for an interim loan such as a predevelopment or acquisition loan. For Take STOC, it means that there could be the establishment of a loan product that


\(^ {15} \) 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.
would be complimentary to the GSAF financing which is for acquisition purposes that could help a developer pay for items such as cleaning up a site or infrastructure costs so that the project can move ahead and access construction and permanent financing sources of repayment such as 9% LIHTC, 4% tax credit and bonds.