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CDFIs and Transit-Oriented Development

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In commissioning this work, LIIF and CTOD were guided by a national advisory panel, selected to represent diverse perspectives. The advisory panel, which is the first of its kind ever brought together on this issue, was convened on two occasions to provide guidance on this paper. All panelists were given the opportunity to provide comments and contributions to the paper. Panel members included the following individuals:

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Executive Summary

Introduction

Transit-oriented development (TOD) can provide households with more opportunities and choices. Ideal TOD communities are mixed-use neighborhoods with good-quality public transit that connect people of a variety of incomes to a wide range of economic, social, and educational opportunities. TODs incorporate access to human services such as child care facilities, fresh food stores, health care facilities, and cultural and educational institutions within a short walking distance of transit. Families living in transit areas can significantly reduce the time and cost spent on their daily commute to work, and the other trips required for their daily chores, allowing for more disposable income and leisure time. Compact and pedestrian-oriented environments also generate demonstrated public health benefits by reducing obesity and preventing related health problems.

The benefits of living in pedestrian-friendly, mixed-use urban neighborhoods are growing increasingly evident, and the private real estate market has responded. Recent research by the Environmental Protection Agency (EPA) shows that an increasing share of new housing units has been built in central city locations, which generally have access to transit.[1] Research by the CTOD indicates that a great deal of the recent new development has occurred in or near downtowns and major employment districts. Other types of urban and suburban neighborhoods along transit corridors have not benefited equally in terms of receiving new investment.[2]

The uneven nature of development in transit areas can partly be attributed to the fact that the implementation of TOD is often challenging and complex. TOD projects are generally costly and challenging to finance, especially in the current economic and financial environment. Dense mixed-use TOD projects generally have higher land costs, higher construction costs, and longer time frames for completion. All of these factors require sophisticated financing tools, and a high level of expertise on the part of the developer. The need to cobble together multiple permanent financing sources means that there is often a long holding period, in which the developer must pay for land acquisition, site assembly, and other predevelopment costs. Downtowns and other premium locations can generate higher returns, which can in some cases justify the longer term and higher cost of the investment. However, it is often impossible to find the patient capital that is required to bring a project to fruition, even in very desirable locations. Furthermore, many TOD neighborhoods do not have strong market appeal, and require substantive upfront investments in infrastructure, community facilities, and amenities in order to attract private development. While these investments are typically made by the public sector, many cities lack the revenues to fund these activities, leaving many neighborhoods with a deficit of facilities, amenities, and infrastructure to support TOD. Often, federal, regional, and state-level funding is absent or inadequate to fill the funding gap. The combination of these challenges has led to only a modest share of new housing and jobs occurring in transit and infill locations.

CDFI activity ranges from providing capital to nonprofit housing developers, to investments in small businesses and community assets such as schools, health clinics, fresh food stores, and child care facilities

The challenge of bringing TOD to scale has important equity implications. Because of the strong market demand from affluent households, as well as the cost of building housing in high-value urban areas, new TOD housing is most often targeted to upper-income households. Low- and moderate-income households, for whom transit is often an essential service, are not as well served by the market. Furthermore, the introduction of new transit sometimes results in an increase in rental rates, making it difficult for existing residents to remain in place as the neighborhood changes. In the few regions where the creation and preservation of affordable and mixed-income TOD has been effective, there has been proactive leadership and concerted efforts from a diverse set of actors, including the public sector, nonprofits, and philanthropy.

While community development finance institutions (CDFIs) have long provided financial services and other assistance to promote economic opportunities for low- and moderate-income individuals, and to support strong,

1 U.S. Environmental Protection Agency, Division of Development, Community, and Environment, "Residential Construction Trends in America's Metropolitan Regions," 2010.

2 Nadine Fogarty and Mason Austin, Rails to Real Estate: Development Patterns Along Three New Transit Lines, Center for Transit-Oriented Development (forthcoming).

healthy, and diverse communities. CDFI activity ranges from providing capital to nonprofit housing developers, to investments in small businesses and community assets such as schools, health clinics, fresh food stores, and child care facilities. Some CDFIs are engaged in advocacy at the federal policy level, while others are working in partnerships with community-based organizations, government, and foundations in community planning efforts. However, TOD has not been a focal point at the center of these activities. To date, most CDFIs have engaged in TOD in a somewhat limited and opportunistic way, providing capital and technical assistance to individual housing and mixed-use projects in neighborhoods served by transit. However, it is clear that CDFIs have a great deal to offer in advancing the TOD agenda in terms of technical expertise, creative financing tools, and advocacy.

As a first step towards identifying ways that CDFIs may deepen their involvement in promoting equitable TOD, the Center for Transit-Oriented Development (C-TOD) has prepared this paper. Following a summary of findings, the paper contains the following elements:

- A clear description of the benefits of equitable TOD and how this relates to the broad goals of the CDFI industry;
- A discussion of challenges to the provision of equitable TOD;
- A description of the range of strategies employed to overcome these challenges;
- A framework for understanding the potential role(s) of CDFIs in promoting equitable TOD.

This document is an initial effort to frame the context of TOD and equity, and to encourage a more robust discourse on the connection between the agendas of CDFIs and TOD.

CDFIs and TOD: Principal Findings

To date, CDFI involvement in TOD has been primarily through the provision of financing and technical assistance to development projects in neighborhoods near transit. There are numerous examples of CDFIs partnering with community-based organizations to build and rehabilitate affordable housing and mixed-use developments. While there are many areas of convergence between CDFIs and TOD, there are also some areas of mismatch, identified below:

Scale of involvement – CDFIs are generally involved in individual TOD projects, which are financed separately. However, implementation of successful and equitable TOD requires neighborhood level investments of all kinds, including built assets such as parks, plazas, streets, basic infrastructure, and community facilities that are difficult to finance through traditional means.

Qualifying neighborhoods – CDFIs generally target their investments to low- and moderate-income places. However, there is also a role for investing in higher income TOD neighborhoods to ensure that they are equitable. For example, in many TODs, there is a need to introduce affordable and mixed-income housing so that all can benefit from the opportunities of living and working near transit.

Financing challenges – As discussed above, TOD projects are complex and can take a very long time to realize. However, private investors are typically not able to wait 10 to 20 years to receive a return on their investment.

Infrastructure and amenities – Neighborhood infrastructure and amenities such as sidewalks, plazas, parks, and sewer lines are not revenue generators, which makes them difficult to finance through the lending tools available to CDFIs.

Lack of capacity at the neighborhood level – In order to implement projects on the ground, CDFIs must partner with strong community based organizations (CBOs) and community development corporations (CDCs), but in many neighborhoods, there is a lack of organizational capacity.

The most important prerequisite for a significant expansion of CDFI involvement in TOD is the presence of public sector commitment to fund these activities. This includes federal, regional, and local resources to acquire and assemble properties, conduct station area planning, provide technical assistance, fund infrastructure improvements, finance low-income and mixed-income housing, and fund other types of community facilities and services.

There is also a need for Metropolitan Planning Organizations (MPOs) and regional transit agencies to provide leadership at the metropolitan level urging cities to create TOD-supportive land use policies. Foundations and CBOs can also play the critical role of the central convener that brings various stakeholders to the table. Foundations can also provide patient capital and potentially equity to projects and regional TOD acquisition funds.

CTOD has identified opportunities for CDFIs to expand their role in TOD to include the following areas:

- Provide short-term, unconventional financing for construction and rehabilitation/preservation of affordable housing projects – CDFIs have a proven track record of providing creative financing solutions that go beyond traditional sources for affordable and mixed-income housing.
- Formation of additional regional structured funds to finance TOD projects – TOD implementation requires early and low-cost sources of capital to acquire properties in high-value TOD areas. Recent experiences with structured funds for property acquisition provide instruction on the key factors to consider when pursuing this strategy to develop affordable and mixed-income housing in TOD neighborhoods.
- Inform federal policymaking – Based on CTOD's research, there is a potential role for CDFIs to provide useful information based on practical experience, to help shape the debate in the following policy areas:
    a) Establishing a federal TOD requirement for LIHTC and NMTC allocations;
    b) Steering credit towards transit areas;
    c) Exploring new federal financing sources for child care facilities.
- Engagement with metropolitan planning organizations (MPOs) in regional TOD planning – CDFIs could assist MPOs to modify their station area planning processes to explicity include equitable development, going beyond affordable housing to reinforce the critical role that essential services (e.g., infrastructure, child care, health services, libraries, recreational facilities) play in building healthy communities.

In addition to the recommended areas of involvement above, CTOD also identified other potential areas for CDFIs to explore for future engagement in TOD.

- Providing financing to revenue-generating neighborhood infrastructure projects such as public parking garages and energy infrastructure;
- Providing assistance to MPOs and/or local governments in developing sound underwriting standards to evaluate grants and loans to finance TOD infrastructure and projects;
- Advising MPOs in the formation of regional infrastructure banks and/or revolving loan funds for TOD infrastructure investments;
- Dissemination of best practices to educate public policy-makers about ways to include the human services, like quality early care, education and health care, as components of equitable TOD into their plans.

Enhanced involvement in all of these areas would require a significant amount of "soft" funds from the public or philanthropic sectors.

Introduction

Recent studies have shown that as the U.S. population has become increasingly suburbanized, economic opportunities have also been pushed out of central cities and into the fringes. A March 2010 study by Brookings showed that 72 percent of all jobs today are located more than five miles from central business districts.[3] Moreover, jobs suitable for the skills of low income workers are some of the most geographically dispersed. For example, the recent Brookings study showed that of all employment categories, manufacturing jobs were the most suburbanized, with 77 percent located more than five miles from city centers.[4] By contrast, skill-intensive jobs were the least suburbanized, at 67 percent.[5]

While jobs for low income workers have moved outward, the majority of low income people continue to reside in urban centers, mainly due to the absence of strong policies to encourage the production of affordable housing in jobs-rich suburbs. These trends have created a spatial mismatch between the new economic opportunities created in the suburbs and the location of affordable housing for the poor in the inner cities. Many low-income residents have difficulty accessing jobs in auto-oriented suburbs from their inner city, urban, or rural neighborhoods.

Low-income families therefore are forced to spend an increased share of their income on transportation to commute to work and access other essential services. The Center for Housing Policy finds that for every dollar a family saves on housing, that family spends an extra 77 cents on transportation costs.[6] This combined housing-transportation cost burden has been studied extensively by the Center for Transit-Oriented Development, led by the Center for Neighborhood Technology (CNT). According to CNT's H+T Affordability Index, transportation costs in location-efficient neighborhoods near transit can be as low as 12 percent of a family's budget as compared to up to 32 percent for neighborhoods where residents have to drive to jobs and services.[7] Similarly, a study by the Center for Housing Policy of 28 metropolitan areas found that housing and transportation were the two greatest expenses for working families, and in some places the burden of transportation cost is even greater than housing.[8] Families making $20,000 to $50,000 a year pay as much as 57 percent of their income for the combined costs of housing and transportation.[9] In 2008, a household could have saved over $9,000 by simply using public transportation instead of driving.[10]

Transit-oriented development (TOD) offers the opportunity provide households with more opportunities and choices. TOD recognizes the fundamental economic reality that it is easier to move people to jobs than to move jobs to people. The working member of a family living in housing close to public transportation services can easily and more affordably commute to jobs and services than households without easy access to public transportation. In this way, TOD extends access to a wider variety of well-paying jobs, enabling low income people to participate in regional economic opportunities. In addition, TOD reduces transportation costs, allowing households to have more disposable income for other household necessities and to build savings.

TOD offers a vision of "complete communities"—mixed-use neighborhoods near transportation hubs that connect people to economic opportunities and incorporate basic services like child care, healthy food stores, clinics, and libraries within easy reach. Everyday non-work trips comprise about 80 percent of all travel, and add to the burden of a family's transportation costs. The development of compact, walkable TOD communities also provides excellent health benefits, helping to address problems of obesity and associated diseases. The benefits of having immediate access to high-quality essential services and a safe environment offer significant economic, social, health and environmental benefits to low-income families and children.

Living in close proximity to high-quality transportation and services is a recognized advantage for people at all

3 Elizabeth Kneebone, Job Sprawl Revisited: The Changing Geography of Metropolitan Employment, Brookings Institution Metropolitan Policy Program, April 2009.

4 Steven Raphael and Michael Stoll, Job Sprawl and the Suburbanization of Poverty, Brookings Institution Metropolitan Policy Program, March 2010.

5 Ibid.

6 Barbara J. Lipman, Something's Gotta Give: Working Families and the Cost of Housing, Center for Housing Policy, 2005.

7 TOD 201, "Mixed-Income Housing Near Transit: Increasing Affordability with Location Efficiency," Reconnecting America, Center for Transit-Oriented Development, 2009.

8 Barbara J. Lipman, A Heavy Load: The Combined Housing and Transportation Burdens of Working Families, Center for Housing Policy, 2006.

9 Ibid.

10 TOD 201, "Mixed-Income Housing Near Transit: Increasing Affordability with Location Efficiency," Reconnecting America, Center for Transit-Oriented Development, 2009.

income levels. However, the housing demand from upper-income households, combined with the higher cost of developing TOD projects generally, has resulted in the delivery of market-rate units that serve primarily affluent households.[11] Without proactive efforts on the part of policy-makers and community developers, many low-income communities and households may miss out on the full benefits of TOD. For this reason, philanthropy and the public sector have demonstrated increasing interest in introducing social equity into the TOD agenda.

The core opportunity of transit-oriented development is for people with a wide range of incomes to reduce their dependency on the automobile for their transportation needs.

People within a half-mile radius are 5 times as likely to walk to transit than others. Those who live further away are less likely to bother with the train or bus.

Many community development finance institutions (CDFIs) have long provided financial services and other assistance to promote economic opportunities for low- and moderate-income households and entrepreneurs, and to support strong, healthy, and diverse communities. However, to date the industry as a whole has focused on TOD in a limited way. As a first step towards identifying ways that CDFIs may deepen their involvement in promoting equitable TOD, the Center for Transit-Oriented Development (C-TOD) has prepared this paper, which contains the following:

- A clear description of the benefits of equitable TOD and how this relates to the broad goals of the CDFI industry;
- A discussion of challenges to the provision of equitable TOD;
- A description of the range of strategies employed to overcome these challenges;
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Defining Transit-Oriented Development

The core opportunity of transit-oriented development is for people with a wide range of incomes to reduce their dependency on the automobile for their transportation needs. By living and/or working near a transit system, individuals have greater choices about their transportation options, enabling them to reduce the amount of money and time they spend on travel. The potential of TOD can be enhanced through the design and development of dense, walkable, multi-use neighborhoods that can support a mix of land uses: housing, workplaces, stores, and restaurants. The diversity of land uses provides greater access and connectivity to local services, and allows people to take care of some of their daily needs by walking or biking to various destinations.

It is important to distinguish between projects in transit zones and Transit-Oriented DISTRICTS. In discussing TOD, people often get confused between individual development projects and the entire district or zone that lays within the walking radius of any given transit station. A plethora of research shows that commuters are willing to walk on a regular basis to transit if they live within a half-mile of a fixed-guideway (rail or bus rapid transit) station that easily connects to their workplace or school. For buses and streetcars, the average walking dimension is a corridor roughly ¼-mile on either side of the line, while light and heavy rail transit walking areas extend to about ½-mile radii. Thus, the area of influence for transit is much larger than simply the station and the buildings immediately around the station that may constitute a TOD project.

TODs may incorporate a variety of land uses and can take many forms. Not all of the places that touch a transit system should be expected to serve the same functions, provide the same mix of uses, or be built at precisely the same densities. Indeed, when a new transit line is built, it often extends through a combination of existing neighborhoods – some of which have the potential for significant new development and others that do not. Some of the

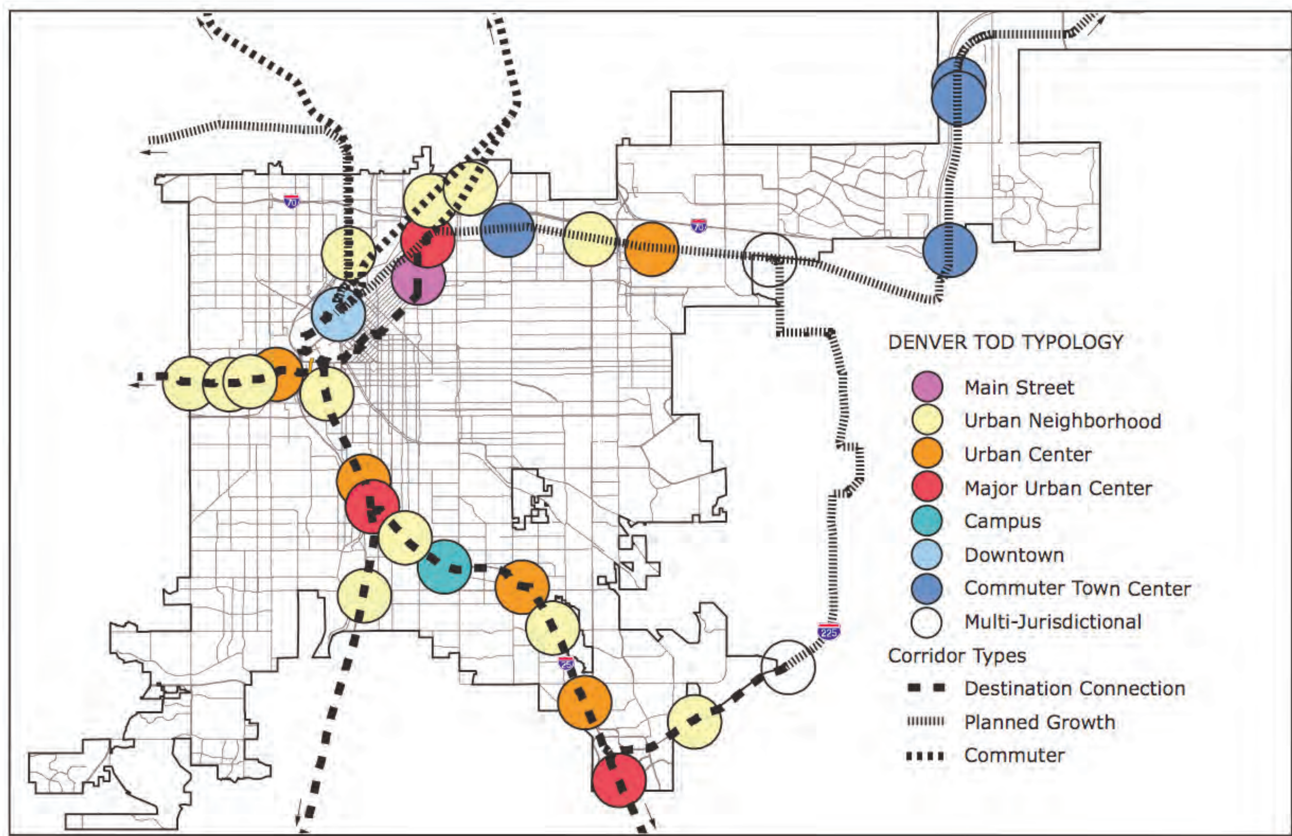
11 Barbara J. Lipman, A Heavy Load: The Combined Housing and Transportation Burdens of Working Families, Center for Housing Policy, 2006.

neighborhoods near transit have very hot market conditions, while others are relatively weak market areas.

While the classic "hub and spoke" pattern of many transit systems typically funnels rail lines into a city center, there is an increasing recognition that the highest-performing transit corridors link up a variety of destinations and station areas, including downtown core areas, near-in urban neighborhoods, hospitals, colleges and universities, sports and entertainment facilities and suburban town centers.

The districts that emerge around each of these hubs can range in character from high-density office towers to low-density residential neighborhoods and mixed-use residential and commercial districts. Yet all of these places fall under the umbrella of transit-oriented development. It is clear that TOD is not a "one size fits all" concept.

Figure 1: Denver TOD Place Typology



Articulating the Benefits of TOD

Households in transit-rich locations have increased access to jobs, services, educational and health institutions, social networks, and most of all, can reduce their cost of living by paying less for transportation costs. Development linked with transit has the potential to deliver many benefits, including: cost savings to households and communities; connections to regional employment opportunities; diverse mixed-income neighborhoods; and environmental benefits (e.g., reduced greenhouse gas emissions). Each of these benefits is discussed in more detail below.

Affordable Living

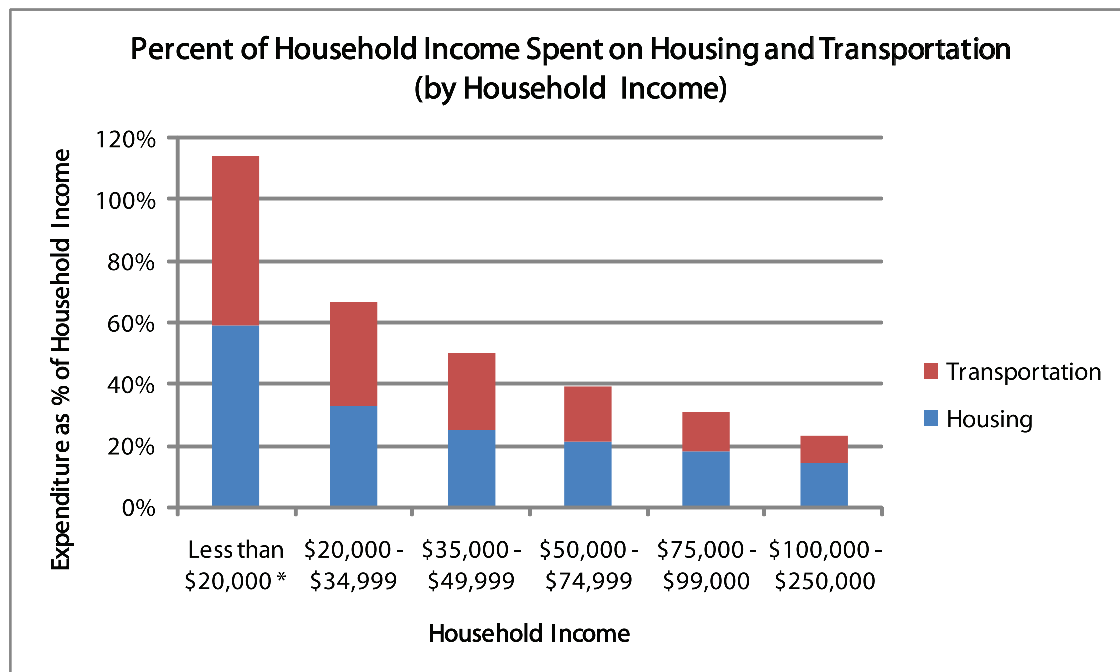
Typically discussions of "affordable" housing costs take into account only the household's expenditure on housing. However, household expenditure on transportation is also tremendously important for affordability. This is especially true for lower-income households, for whom transportation costs are a heavier burden. Households earning less than $35,000 spend 67 percent or more of their income on housing and transportation combined.

The location of housing is therefore critical to enhancing affordability and quality of life for low- and moderate-income households. Today's transit zones can provide important mobility opportunities—and the economic benefits that accrue from this—that allow people to live with fewer cars. In three-quarters of transit zones, households have one car or less. In some of the small transit systems, fully 100 percent of transit zones house a majority of households with one car or less. Especially given rising gas prices, transit zones offer a way for households of modest means to keep in check their household expenses by reducing car ownership and transportation expenses. Living near transit can also greatly improve the quality of life for low- and moderate-income people by allowing them to get to work, school, medical appointments, and other destinations more reliably and reducing the stress of the daily commute.

Connections to regional employment opportunities

Academics and practitioners have long touted TOD as an effective way to meet a variety of environmental, economic, and social goals. More recently, transit and TOD have become important parts of the climate change debate

Figure 2: Combined Housing and Transportation Costs for Households by Income



* The combined housing and transportation costs totaling over 100% of household income may be due to one or more of the following: 1) households living in subsidized housing or sharing household costs with others that have not reported their income as part of the household's total income on the Census form; 2) inconsistency between actual household spending and the transportation model's prediction of transportation spending given the characteristics of the Census tract.
Source: Center for Neighborhood Technology Housing and Transportation Affordability Index.

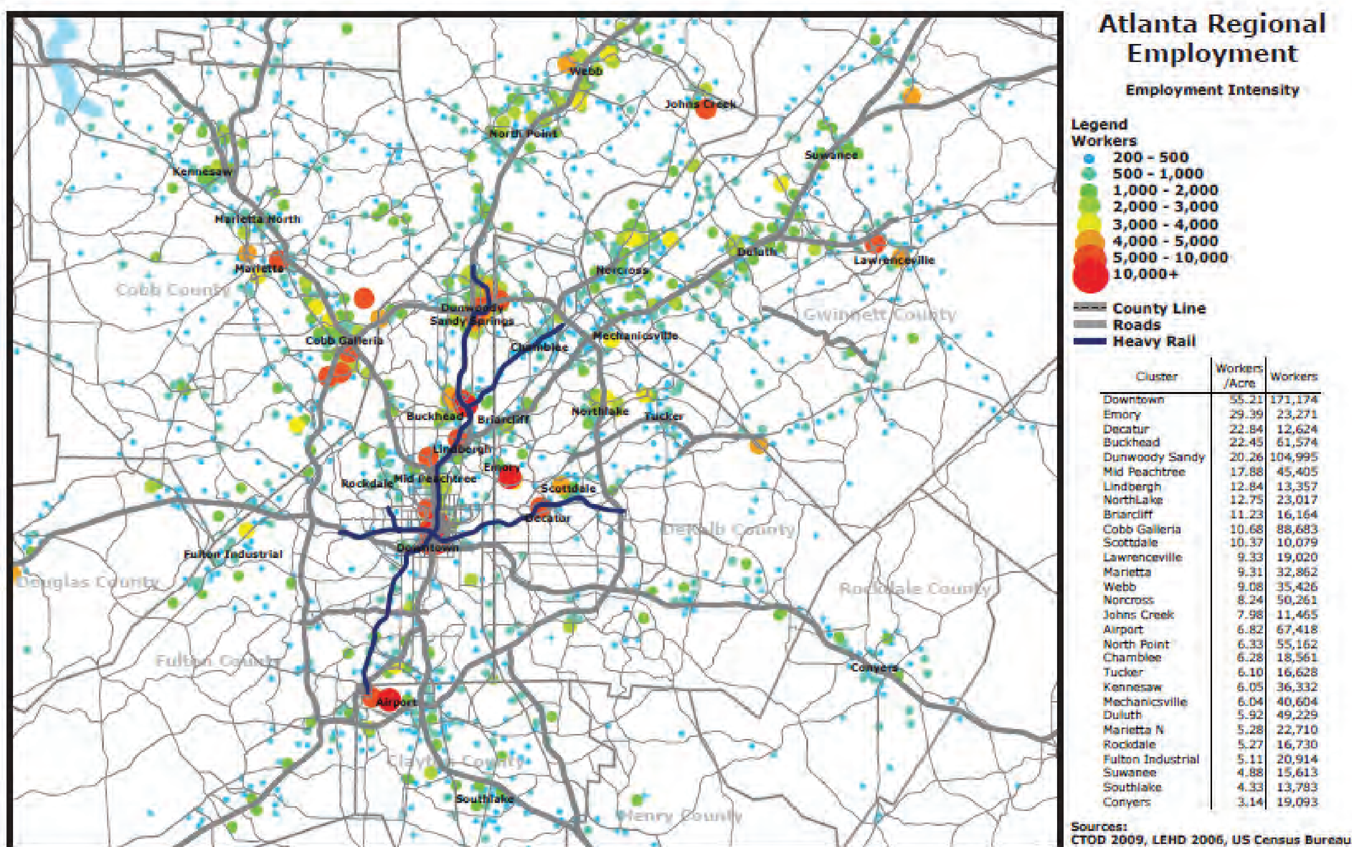
as there is increasing evidence that these are critical elements of a long term strategy to reduce greenhouse gas (CHG) emissions. However, most of the dialogue around TOD has focused on creating mixed use residential development projects that sometimes include office space, but in relatively small increments. Considerably less attention has been directed to the role that transit plays in connecting the people in transit-oriented neighborhoods to their jobs. Yet, the work commute trip comprises almost 60 percent of all transit ridership, and is critical to sustaining a robust transit system.

An efficient transit system has to connect origins (where people live) and destinations (where people work). Yet employment decentralization patterns have occurred in most of the larger metropolitan areas of the United States, and many of the fastest growing employment centers are located in auto-oriented suburban communities at the edge. Figure 3 below illustrates the decentralization of employment in the Atlanta metropolitan area, where jobs are increasingly dispersed to low-density suburban areas.

The reasons for this employment dispersal are numerous, including:

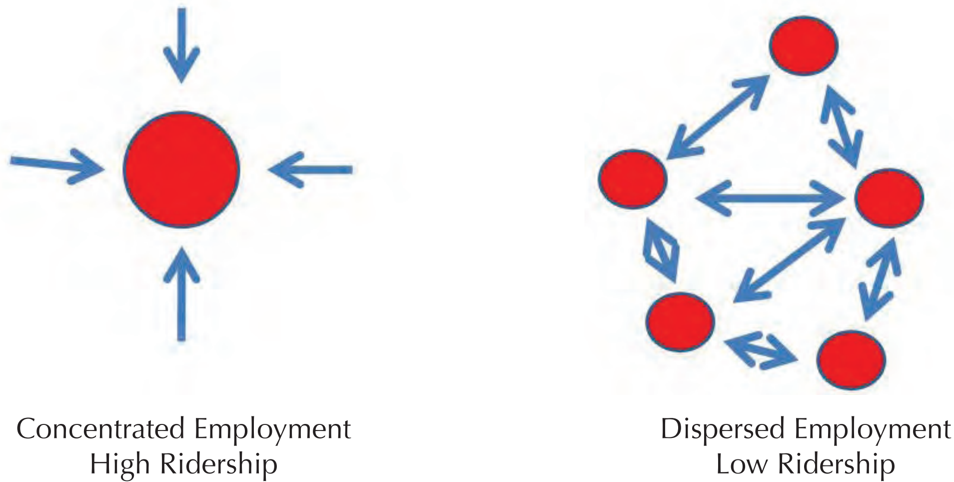
- Employers locating jobs closer to workers who have moved away from the central city.
- Preference of certain types of employers to be located in a suburban campus setting.
- Changing technology needs of employers may require newer building types that can offer faster broadband and advanced heating and cooling systems.
- Greater supply and lower cost of land and real estate in suburban locations.
- Public infrastructure investments have been greater in roads and highways than transit.

Figure 3: Job Dispersal Patterns in Atlanta Region



Cluster	Workers /Acre	Workers
Downtown	55.21	171,174
Emory	29.39	23,271
Decatur	22.84	12,624
Buckhead	22.45	61,574
Dunwoody Sandy	20.26	104,995
Mid Peachtree	17.88	45,405
Lindbergh	12.84	13,357
NorthLake	12.75	23,017
Briarcliff	11.23	16,164
Cobb Galleria	10.68	88,683
Scottdale	10.37	10,079
Lawrenceville	9.33	19,020
Marietta	9.31	32,862
Webb	9.08	35,426
Norcross	8.24	50,261
Johns Creek	7.98	11,465
Airport	6.82	67,418
North Point	6.33	55,162
Chamblee	6.28	18,561
Tucker	6.10	16,628
Kennesaw	6.05	36,332
Mechanicsville	6.04	40,604
Duluth	5.92	49,229
Marietta N	5.28	22,710
Rockdale	5.27	16,730
Fulton Industrial	5.11	20,914
Suwanee	4.88	15,613
Southlake	4.33	13,783
Conyers	3.14	19,093

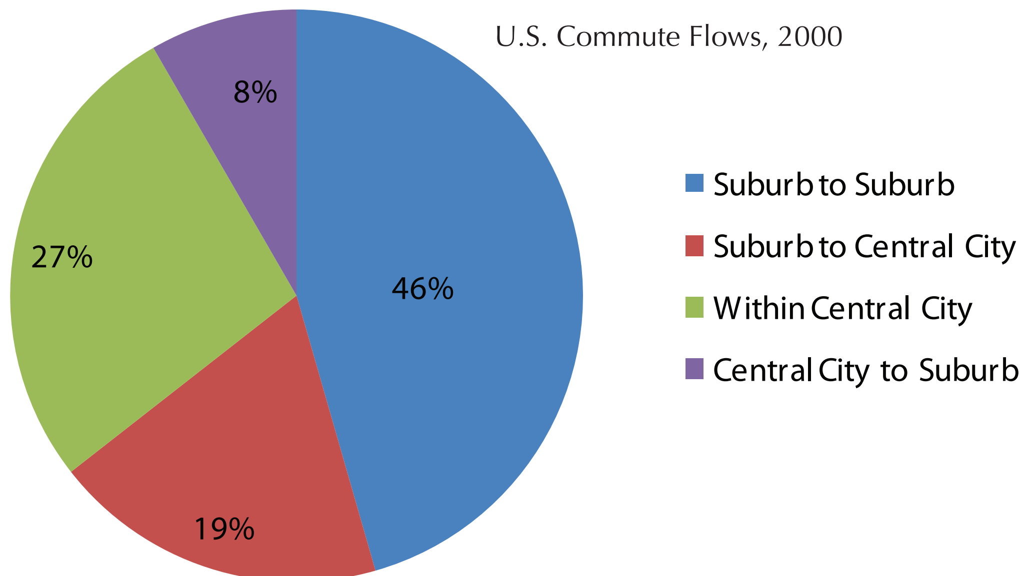
Figure 4: Challenge of Transit Service to Dispersed Employment Centers



Dispersed employment centers, as shown in the Figure above, are very difficult to serve through rail transit. The pattern of decentralization has led workers to increasingly commute by car to get from their homes to their jobs. As shown in the graph below, the suburb-to-suburb commute accounts for nearly half of all commute trips in the United States.

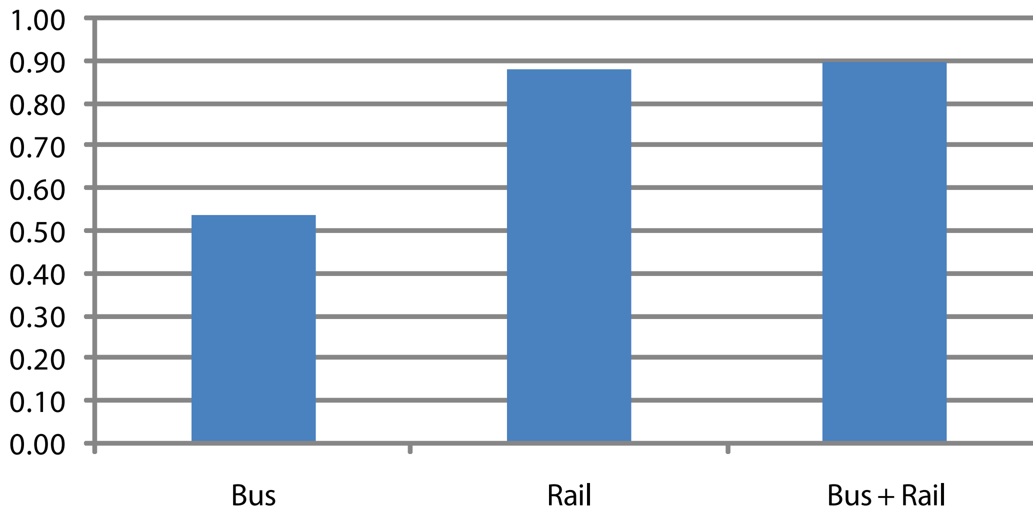
The location of new jobs in auto-oriented suburbs has important implications for economic development, especially for low-income communities. Many low-income residents have difficulty accessing jobs in auto-oriented suburbs from their inner city, urban, or rural neighborhoods. In addition, many entry level-jobs require working late at night or on weekends when there are fewer transit options. Finally, many employment related-trips are complex and involve multiple destinations including reaching childcare facilities or other services.

Figure 5: Pattern of Commute Flows in the United States



Concentrating housing and jobs closer to transit stations can help to broaden employment opportunities for lower-income people. Clustering employment and low-income housing near transit allows for better mobility and access to economic opportunities. In addition, CTOD's research shows that fixed-guideway (rail) transit provides connectivity to higher-wage jobs. While buses primarily provide connectivity to workers in primarily low-wage industries, a greater diversity of jobs can be served by rail (see Figure 6 below).[12]

Figure 6: Income Diversity of Industries by Mode of Transit



Note: As the income diversity index approaches 1, there is a greater diversity of incomes and jobs in the industry. As it approaches 0, the incomes are more concentrated.
Source: Center for Transit-Oriented Development.

Diverse mixed-income neighborhoods

In 2006, the Center for Transit Oriented Development studied the demographic and housing characteristics of the ½ mile radius surrounding transit stations (about 500 acres), and found that overall, the neighborhoods around fixed guideway transit today are more diverse than other neighborhoods. When compared to the average census tract in their area, 86 percent these transit zones have more race, income, or race and income diversity.

The neighborhoods near transit provide greater housing opportunities for lower-income and minority residents. The rental housing stock is more plentiful in most transit zones, and the rental price is more affordable than other parts of the region. TOD is an opportunity for enhancing the potential benefits of mixed-income neighborhoods, as shown in the diagram in Figure 7.

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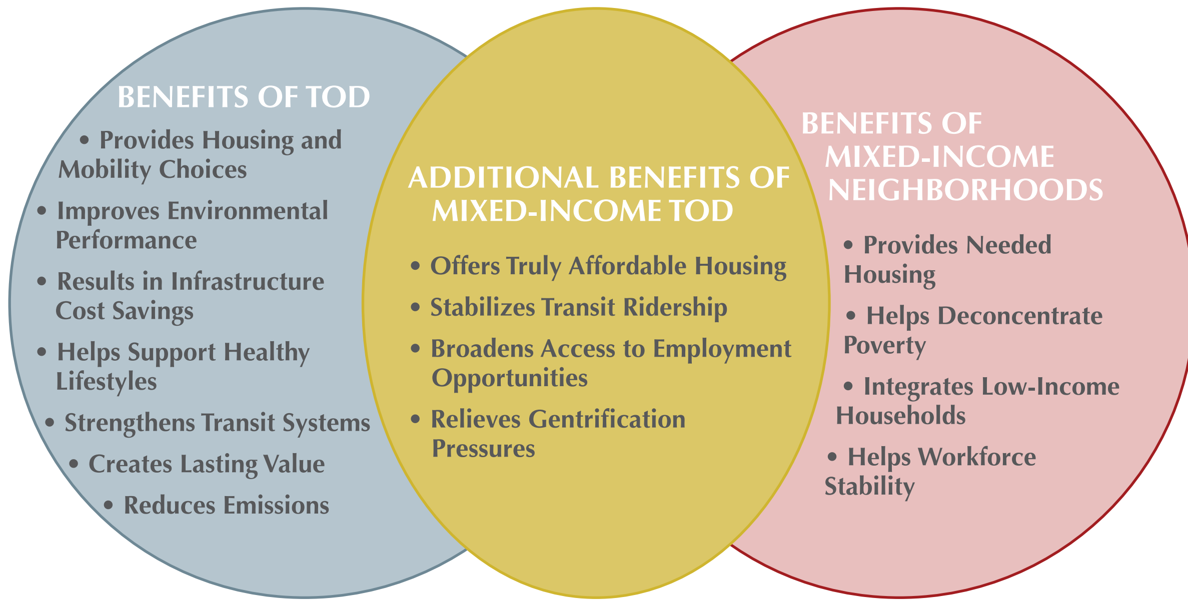
12 Yingling Fan, Andrew Guthrie and Levinson, David, Impact of Light Rail Implementation on Labor Market Accessibility: A Transportation Equity Perspective, Informally published manuscript, Hubert H. Humphrey Institute of Public Affairs; Department of Civil Engineering, University of Minnesota, Minneapolis, Minnesota, 2010. Retrieved from http://nexus.umn.edu/Papers/Transit-Labor-Accessibility.pdf.

Figure 7: Benefits of Mixed-Income Transit-Oriented Development



Environmental benefits

TOD is supportive of compact urban development patterns which encourages more efficient use of land, slows down the spread of suburban sprawl, and helps to preserve highly productive agricultural lands. In addition, because TOD households use their cars less for daily commuting and other activities, TOD can help to reduce greenhouse gas emissions from the transportation sector and slow global warming trends. TOD can also reduce air pollution impacts by creating environments where people walk and take transit rather than exclusively using their car.

Public health benefits

Planners and public health experts have demonstrated the strong relationship between the built environment, transportation, and public health. In a 2004 publication, Frumkin, Frank and Jackson postulated that building pedestrian-oriented communities that encourage physical

activity is one of the best ways to prevent obesity epidemic, diabetes, and other chronic illnesses. A recent study of 24 California cities showed that communities with high quality street connectivity, smaller block sizes, and more intersections enjoy significantly lower rates of fatalities.[13] Indeed, the most sprawling cities in the United States have traffic death rates that are nearly five times higher than cities are more compact.[14] Improved safety can in turn promote more physical activity. Traffic is one of the main barriers to people considering cycling.[15]

People who commute on transit are four times more likely than drivers to meet the recommended standard of 10,000 steps per day, and walk an average of 30 percent more.[16] The results of a more recent study examining the physical condition of individuals before and after the construction of a new light-rail system in Charlotte, North Carolina, found that the use of transit for the commute trip significantly reduced obesity. The study's findings "suggest that improving neighborhood environments and increasing the public's use of LRT systems could provide improvements in health outcomes for millions of individuals."[17]

Components of Equitable TOD

As discussed above, much of the discussion about TOD to date has been focused on the development of new housing projects at transit stations. Yet there are a variety of other kinds of neighborhood-level investments that play an important part in making the most of the benefits of transit and TOD. Many of the "building blocks" outlined below are critical for the creation of "complete" and equitable neighborhoods, but they are often left out of the discourse about TOD.

- Affordable housing for a variety of income groups and household types.
- Access to diverse employment opportunities.
- Community services such as libraries, child care centers, health clinics, and educational facilities.
- Access to fresh foods and retail services.
- Pedestrian-friendly and bicycle-friendly infrastructure.
- Safe public gathering spaces and parks.
- Public infrastructure such as roads, sidewalks, plazas, parking structures, utilities, etc.

The examples of San Leandro and the Central Corridor provided below illustrate the importance of collaboration between regional governments, local governments, foundations, and community-based nonprofits to ensure that social equity goals are incorporated into TOD planning and implementation.

13 Wesley E. Marshall and Norman Garrick, "Street Network Types and Road Safety: A Study of 24 California Cities," New Urban News, 2008.

14 David Clark and Brad M. Cushing, "Rural and Urban Traffic Fatalities, Vehicle Miles, and Population Density," Accident Analysis and Prevention 36 (2004): 967–72.

15 Jim Sallis, Professor, Department of Psychology, San Diego State University, at the New Partners for Smart Growth conference, February 4, 2010.

16 Richard E. Wener and Gary W. Evans, "A Morning Stroll: Levels of Physical Activity in Car and Mass Transit Commuting," Environment and Behavior 39, no. 1 (2007): 62–74. Sage Publications, available at http://online.sagepub.com/cgi/citmgr?gca=speab;39/1/62.

17 John MacDonald et al., "The Effect of Light Rail Transit on Body Mass Index and Physical Activity," American Journal of Preventive Medicine 39, no. 2 (August 2010): 105–12.

Build
TOD Success Story in San Leandro

San Leandro is an inner-ring, historically "working-class" suburb of the San Francisco Bay Area. A city of about 80,000 people, San Leandro has experienced a demographic shift over the last 10 years, becoming much more ethnically and racially diverse. With two Bay Area Rapid Transit Stations (BART) located within San Leandro and a Bus Rapid Transit (BRT) line in the final planning stages strengthening the link to major job centers, the city and its residents have the potential to reap tremendous benefits from their strategic location within a regional transit network.

In 2006 the City of San Leandro was one of the first recipients of the Station Area Planning Grant program facilitated and funded by the Metropolitan Transportation Commission (MTC), the metropolitan planning organization (MPO) for the San Francisco Bay Area. The grant required the City to produce a plan that included a minimum number of housing units, with an appropriate mix of land uses and densities to help meet regional goals of enhanced transit ridership, lower vehicle miles traveled (VMT) and greenhouse gas emissions, and providing affordable housing.

Emerging at the same time as the Station Area Planning Grant program was an innovative collaboration of four regional non-profits, one national non-profit and three Bay Area Community Foundations called the Great Communities Collaborative (GCC). The GCC was created with the purpose of optimizing the investment of the regional agencies and cities in TOD planning and ensuring that the process included equity and sustainability goals and objectives. San Leandro was selected as one of the first GCC priority sites. GCC partner Urban Habitat took the lead, working with GCC foundation partner East Bay Community Foundation, and partnering with the community-based advocacy organization Congregations Organizing for Renewal (COR), an organization whose membership base was largely comprised of Latino residents.

The GCC partners and COR coordinated activities to help shape, influence and determine the outcome of the TOD planning process. With the aid of consultants, the collaboration identified need for a affordable housing preservation strategy, in addition to an affordable housing production strategy, that would outline policies, programs and investments that would preserve the existing affordable housing stock in the station area neighborhood that is particularly vulnerable to gentrification pressures once the TOD implementation efforts proved successful.

The biggest impact of the community builders and GCC partners came through the level of citizen participation they were able help engender over the course of the planning process. By first educating and informing local residents about the relevance of TOD to the issues they care about, and then mobilizing residents by the hundreds to advocate for themselves. They worked extensively with the media and with decision-makers to promote innovative planning and the inclusion of affordable housing as a major goal of the plan, which had not before been a priority. Once the plan was adopted, it far exceeded the density and housing thresholds required by MTC, and outlined goals for affordable housing, local hiring, and green building. Because of their leadership, the city council and city staff are being recognized for their inclusive process and groundbreaking TOD plan. Better yet, the City of San Leandro received over $26 million in grant money through the State of California's Proposition B resources to support the implementation of the Downtown TOD plan. Bridge Housing has agreed to develop the first project within the station area, which will be a mixed-income housing development including 200 units of market-rate rental housing and 100 units of affordable family housing.

Source: Central Corridor Funders Collaborative

A Unique Partnership for Equitable TOD in the Central Corridor

The Central Corridor Funders Collaborative (CCFC) is a unique partnership of 12 local and national philanthropic organizations in the Twin Cities. The CCFC is working with other public, private and non-profit groups to maximize the benefits of the Central Corridor, a new light rail line that will connect downtown St. Paul, the University of Minnesota and downtown Minneapolis. The goal of the CCFC is to leverage the transit investment to benefit the people and places along the line, fostering stable neighborhoods that reflect community identities. The CCFC works to promote affordable housing, a strong local economy, vibrant transit-oriented places and effective communication and collaboration.

The CCFC has created a Catalyst Fund, through which they plan to invest $20 million over 10 years. To date, the group has raised $5 million to invest in corridor-wide strategies and efforts. One current project that is being supported by the CCFC is the creation of the Central Corridor TOD Investment Framework, a comprehensive, multi-jurisdictional set of strategies to leverage public investment to attract, shape, and accelerate appropriate TOD investment throughout the Central Corridor. A working group has been formed that brings together the cities, counties and major public agencies that are considering significant Transit Oriented-Development (TOD) investments in the Central Corridor. The Central Corridor TOD Investment Framework will provide the Working Group with the resources, perspective, and outside expertise to collectively understand both the public and private opportunities that are only available to them through strategic collaboration. This process will fully explore the financing and policy strategies that will allow each partner to realize the potential of all of the many community-based plans along the corridor.

Implementation Challeges

TOD faces a range of implementation challenges, outlined in further detail below.

The lack of a single proactive "implementer" for equitable TOD

As illustrated in the examples discussed above, there are multiple actors involved in the planning and implementation of TOD, which generally include the following:

- Regional government and transit agencies
- Local governments and elected officials
- CDCs and CHDOs
- Private developers and business interests
- Foundations
- Community-based organizations, neighborhood groups and advocates

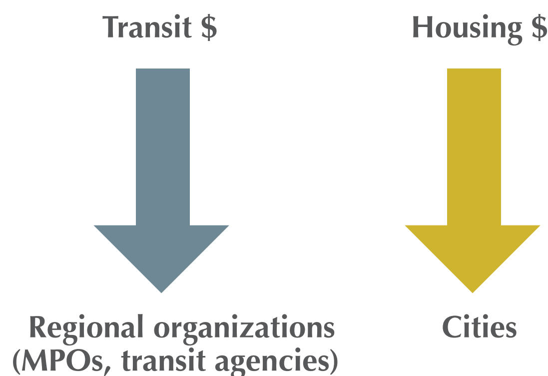
However, for the most part, there is no single "implementer" or convener to negotiate with these various actors and stakeholders. Transit system decision-making is generally more of a "top-down" process at the regional level, with little input from community advocates. Local jurisdictions like cities and counties are generally limited to using conventional planning tools like zoning to incent TOD. These tools are "passive" in that they are put in place to shape private investment activity. There is no guarantee that the planned TOD will be implemented, that it will benefit a variety of neighborhoods, or that it will include all of the elements of an equitable and complete neighborhood, with affordable housing, child care facilities, health clinics, pedestrian connections, etc.

There are some cases where a key actor has been able to help guide the process for planning and implementing equitable TOD by convening stakeholder meetings, garnering financial resources, funding technical assistance, and focusing investments in various projects to maximize the impact on a neighborhood. This role can be critical to maintaining the neighborhood vision and goals and holding local governments, transit agencies, and regional MPOs accountable to equity objectives.

Public sector funding is insufficient and uncoordinated

Policy and funding silos currently govern decision-making about transit and TOD are significant barriers to building more transit, focusing growth around transit and ensuring that TOD benefits all.

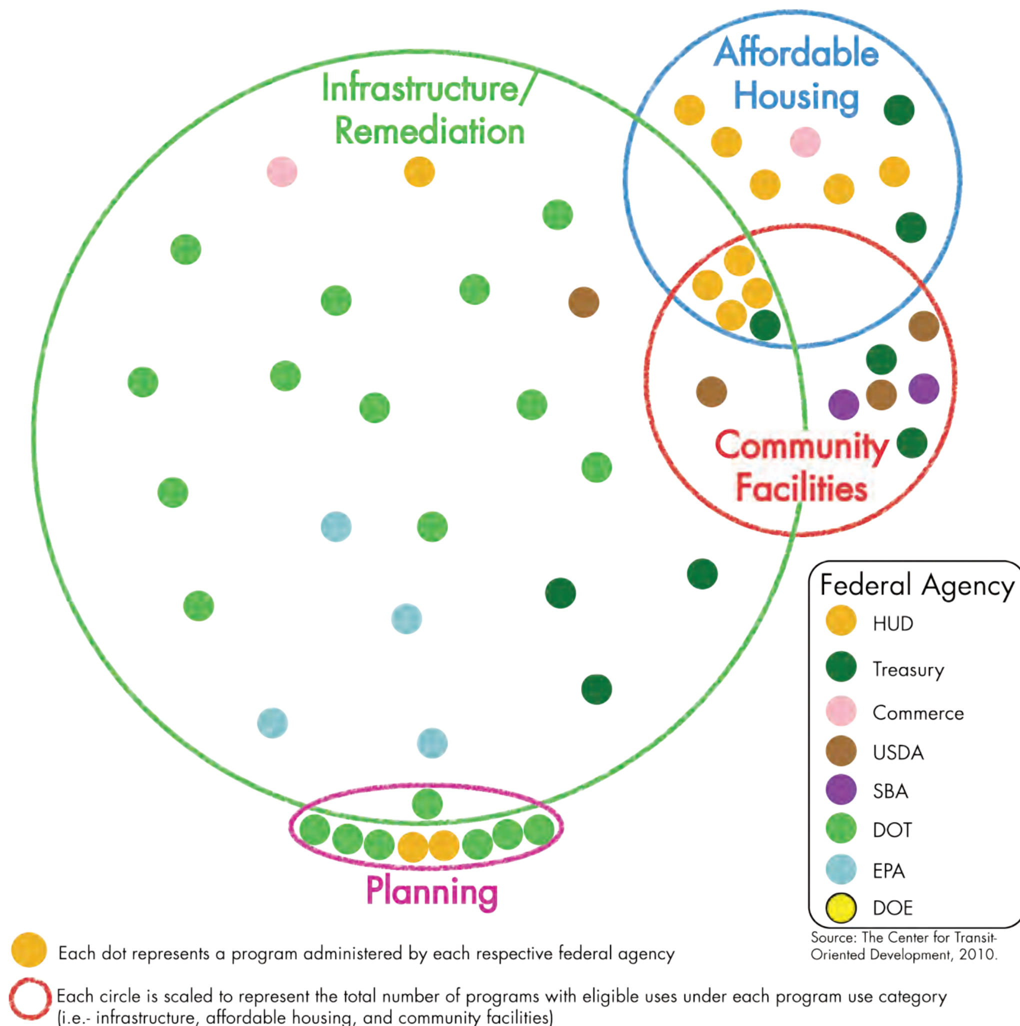
Funding streams for transportation and housing are misaligned in terms of timing, priorities, and geography. For example, transit system funding flow from federal agencies like the FTA to metropolitan planning organizations or regional transit agencies. Meanwhile, funds for affordable housing and local land use planning are allocated to cities and local governments.



A detailed inventory of existing federal programs by Agency or Department to fund the various components of TOD and infill development is presented in a matrix contained in Appendix A of this report and illustrated in Figure 8 below. As shown, there are multiple programs within eight federal agencies designed to address specific issues like infrastructure, affordable housing, community facilities, and planning. There are a large number of programs that can be used towards infrastructure and remediation, planning, affordable housing, and community facilities. There is little overlap, however, between the agencies funding those activities.

In addition to the lack of coordination between federal agencies, variations at the state level in the allocation of federal funds make it difficult to identify national opportunities for CDFIs to garner federal funds for TOD. The direction of transportation funds, which can be used not only for transit, but also some transportation enhancements more appropriate for CDFIs to bundle with affordable housing financing, varies widely from state to state. Some states, like California, make intense use of flexibility allowances that permit transfer of 60 cents of every federal highway dollar to any transportation project, including walking and biking; most do not.[18] Similarly, allocation of Low Income Housing Tax Credits (LIHTC) for TOD varies from state to state, with 36 states having TOD allocation priority, each with unique definitions of TOD. There is no federal prioritization, or selection criteria, for transit locations.

Figure 8: Lack of Coordination of Federal Funding Sources for TOD



18 California accounted for half of all federal highway funds transferred to transit under TEA-21 between 1998 and 2003. Surface Transportation Policy Partnership, From the Margins to the Mainstream: A Guide to Transportation Opportunities in Your Community, 2006, 33.

Reform is needed at all levels of government to reward communities seeking to integrate land use patterns with transportation investments at the regional scale, support sensible decisions regarding transit alignment and station siting to maximize the potential for sustainable and equitable TOD, ensure that mechanisms are in place so that communities benefit from new investments in transit and development, enable for-profit and non-profit developers to meet the demand for TOD, and forge working partnerships among stakeholders to tailor TOD to local conditions.

The Obama Administration has made some efforts to better coordinate housing and transit policy and funding at the Federal level through the formation of the Sustainable Communities Initiative, an inter-agency partnership between HUD, DOT and EPA to improve regional planning efforts that integrate housing and transportation decisions, and increase the capacity to improve land use and zoning.

Affordable housing developers are often unable to compete with private developers to acquire TOD sites and properties.

Higher land costs near transit

The best locations for TOD also have the highest property values and land costs. This is sometimes fueled by real estate speculation and inflated expectations regarding value increases resulting from new transit investment. High land prices pose a challenge to all types of development, and particularly for the development of affordable housing. Affordable housing developers are often unable to compete with private developers to acquire TOD sites and properties. In addition to the high land prices, TOD projects can be costly and very difficult to implement due to a variety of other factors, including:

- Higher construction costs for dense building types and associated parking structures;
- Higher pre-development costs on infill parcels such as site assembly, demolition, and environmental remediation;
- Longer entitlements process;
- Cost of community engagement and provision of community benefits, particularly in neighborhoods resistant to higher density development;
- Coordination with transit agency in the construction of transit facilities and replacement parking.

Because of these high costs, the construction of TOD projects has largely been targeted to affluent households. While there are examples of affordable housing development around transit stations (e.g. Fruitvale Transit Village in Oakland, California), case study research suggests that most of the recently built TOD projects have been built for upper-income households. Developers have not been as responsive to the demand from low-, moderate-, and middle-income households, for whom transit is often an essential service. There are some exceptions in communities with a presence of inclusionary housing programs, proactive community-based organizations, and creative public-private partnerships between developers and local governments. However, it is clear that more concerted efforts will be needed as the real estate market improves in the future to ensure that future TOD acts as a bulkhead against gentrification through programs and policies that promote the preservation of existing affordable housing in transit areas, and that encourage the development of a range of housing types affordable to people at all income levels

Because TOD is mostly up to the private market to deliver most of the TOD built in the last decade was in strong market places with established and new transit systems. During the run up in the housing market there was tremendous interest from the development community in building high density residential units in downtowns, near–to-downtown neighborhoods and in large mixed-use projects in suburban locations where the project was big enough and had enough critical mass to create its own "place" or context. Many of these projects included mixed-use buildings and were in locations that took advantage of proximity to major employment and/or cultural and entertainment centers that already existed. Regions and

neighborhoods with weak markets did not see tremendous development activity.

Financing challenges and limited capacity

Given the high development costs outlined above, the difficulty of financing TOD is a major obstacle to implementation. These financing challenges are outlined below:

- There is a mismatch between the length of time needed to realize equitable TOD (often 20 years or more to fully build out) and the much shorter term of traditional capital sources.
- The magnitude of capital needed for pre-development and construction of projects is very high and requires multiple funding sources, each with its own restrictions and rules.
- The interest on capital for acquiring the high-value properties near transit (holding costs) are difficult for many developers to take on for the long period of time that it may take to entitle and build the project.
- Few developers are sufficiently experienced and capitalized to sustain the pre-development costs, attract the various funding sources. The developers that do have the capacity to take on these projects are often dissuaded due to the complexity and relatively smaller scale of TOD projects.

Tension between revitalization and displacement

TOD occurs in a variety of neighborhood types and under a variety of market circumstances. Centrally located neighborhoods with strong markets and good development opportunities have benefited from a substantial amount of new development activity, and are vulnerable to gentrification and displacement. In these areas, there is a need to place more emphasis on the preservation of existing affordable housing in order to keep residents in place. Other neighborhoods near existing and future transit stations are areas of high poverty, overcrowding, and substandard housing, requiring significant reinvestment and revitalization before they can attract private development. However, in many of these places, the opportunity for TOD leads to concerns about rising property values and ensuing displacement of existing residents and businesses. This is in part due to the over-emphasis placed on new market-rate housing construction in the TOD discourse, rather than focusing on strategies such as preservation of existing affordable housing, community services, facilities, and other elements of equitable TOD. It is clear that there are multiple strategies are needed to promote equity, given the diversity of transit-oriented neighborhoods.

Centrally located neighborhoods with strong markets and good development opportunities have benefited from a substantial amount of new development activity, and are vulnerable to gentrification and displacement.

The need for neighborhood infrastructure and amenities

Transit stations are often located in older urban neighborhoods that could benefit from investments that go beyond individual development projects. In many cases, new pedestrian and bicycle infrastructure is needed to better connect people to transit and promote healthy lifestyles. In other cases, parks or other community gathering places are needed. And in some neighborhoods, basic infrastructure improvements such as new sewer systems are required to make development possible. For example, the Northside neighborhood in Houston, which is anticipating the construction of a new light rail extension, currently has no funding source to build new sidewalks that would allow children to walk to and from school safely. While these kinds of improvements are typically provided by the public sector, many communities do not have the resources to provide needed neighborhood investments. In many cities, there is an over-reliance on "pay-as-you-go" methods of financing infrastructure, where revenues from new development are expected to pay for the improvements. Consequently, places with weak real estate markets never see the infrastructure enhancements. Furthermore, neighborhoods with deficient existing infrastructure and little development potential are unable to fund the improvements necessary to enhance the quality of life of its residents.

The majority of on-going federal funding resources that are relevant to TOD are targeted to individual projects, or alternately, to regional or larger scale infrastructure systems. They are unable to address the needs of many new and planned light rail lines across the country, such as parts of the Central corridor in Minneapolis/St. Paul, the Sprinter light rail line in North San Diego County, and parts of Central Link light rail line in Seattle. These corridors lack basic above-ground connectivity improvements, such as sidewalks and safe pedestrian crossings, that are critical to walkability, and below-ground local utilities improvements, such as water and sewer upgrades, that are necessary for higher density development. These infrastructure upgrades are key to the success of transit and TOD, but because these improvements do not have sufficient impact to qualify for regional-scale grants (i.e. most DOT funds) and project-level resources can only be assembled as projects are built (i.e. most HUD and Treasury programs at the federal level, and local value capture strategies), they are made piecemeal, or not at all. It is clear that new and creative solutions are essential in order to repair and build public infrastructure that can support TOD and complete neighborhoods.

Similarly, child care and other community facilities are a critical component of TOD that has received scant attention in comparison with affordable and market-rate housing, retail and office development. In particular, child care is essential to TOD if working parents are to use transit for their journey to work. Unfortunately, there are no dedicated federal sources of finance subsidy for such facilities. Some CDFIs have been creative in their use of the New Markets Tax Credits, to help finance child care facilities. However, while NMTC can be an effective method of financing low-cost retail spaces, affordable childcare facilities have higher capital and operating expenses, and the degree of subsidy available from NMTC is often insufficient. In addition to the limitation of applying NMTC for child care facilities, the program is highly oversubscribed. Since the first round of NMTC allocations in 2003, demand has exceeded available allocation authority by at least 4.5 times in each round of allocations.[19] A dedicated source of federal subsidy for childcare facilities is needed if childcare is to be included in TOD.

19 U.S. Government Accountability Office, "New Market Tax Credit: The Credit Helps Fund a Variety of Projects in Low Income Communities, but Could Be Simplified," January 2010.

CDFIs and TOD: Convergence

CDFIs are a critical part of the community development infrastructure in the United States. There are currently approximately 1,000 community development finance institutions in the country, with over $30 billion in capital. While CDFIs are diverse in terms of their scale and activity, the majority of the investment activity historically has been focused providing capital to nonprofit housing developers for the acquisition and construction of affordable housing. Other important activities have included investments in small businesses and community assets such as schools, health clinics, and child care facilities. Some CDFIs are also engaged in advocacy at the federal policy level. A few CDFIs have also taken the role of organizing and convening local partners in community planning efforts.

Because of the ability of CDFIs to blend various funding sources, CDFI investments are generally more flexible, patient, and customized than traditional private capital.

CDFIs have a strong track record in providing inventive capital solutions, most often by combining various sources of capital, including public sector, philanthropic, and private investment funds. Because of the ability of CDFIs to blend various funding sources, CDFI investments are generally more flexible, patient, and customized than traditional private capital. CDFIs have developed unique financial tools to harmonize and synthesize various types of "soft" capital from federal, local, and philanthropic sources in order to attract and lower the risk for private investors.

CDFI involvement in TOD to date can be roughly categorized in three areas: gap financing for mixed-use projects in transit areas, financing and technical assistance for community services in low-income transit areas, and the establishment and management of structured funds for TOD property acquisition for the development and preservation of affordable housing.

Financing TOD Mixed-Use Projects

CDFIs have employed lending tools and Tax Credit allocations through the New Markets Tax Credit and Low Income Housing Tax Credit programs to provide short-term, flexible capital for low-income housing and mixed-use projects located at transit stations.

700 Harrison Avenue – Boston, Massachusetts

Source: City of Boston

Boston Community Capital led the financing for this $41 million TOD project in Boston's South End. The mixed-use project is located within walking distance of the Washington Street Bus Rapid Transit line, a supermarket, elementary school and Boy's and Girl's Club. It includes 84 rental units (46 affordable), a community garden and 6,100 square feet of retail space that contains a minority-owned restaurant, a specialty foods store and bilingual preschool, each creating employment and services for the community. LIIF's New Markets Tax Credit allocation helped provide acquisition and long term financing of the non-residential components of the project: $5.1 million for acquisition, $794,000 for soft costs and $120,000 to fund preschool tenant improvements.

Rhode Island Station – Washington, D.C.

Source: dcmud.blogspot.com

This $110 million TOD project in a severely distressed Washington, D. C. neighborhood is located at a Metro station near 14 different bus routes. The Metro line provides local neighborhood residents with access to the more job-rich parts of Northwest D.C. The project, developed by Urban Atlantic Development and AandR Development Corporation, includes 274 rental units (55 affordable to low income families), 70,000 square feet of neighborhood retail, and parking. It is between Catholic and Gallaudet Universities, and planners expect students and staff to live and shop at this new TOD hub. The project also incorporates many environmental sustainability features including on-site water retention to reduce storm runoff, a 7,000 square foot green roof and efficient HVAC systems. LIIF provided $10.7 million in New Markets Tax Credit allocation to the project.

R Street Apartments – Washington, D.C.

National Housing Trust/ Enterprise Preservation Corporation and the Hampstead Companies partnered to acquire, preserve, and rehabilitate R Street Apartments, a 124-unit building located in a centrally located Washington, D.C. neighborhood within a half-mile of three metro stations. Approximately 35% of the neighborhood's residents rely on public transportation for their work commute. The neighborhood, located between Dupont Circle, U Street, and Logan Circle, is highly desirable and existing affordable housing is very vulnerable to condominium conversions. R Street Apartments received nearly $25 million in acquisition and rehabilitation financing, including LIHTC, Private Activity Bonds, Historic Tax Credits, Enterprise Green Communities Initiative, and a city loan. The apartments promote economic diversity while maintaining affordability for households with rents ranging from 30% of AMI to market-rate.

Financing and Technical Assistance for Child Care Centers

CDFIs have also been a crucial partner in facilitating the inclusion of community assets such as child care, schools, health care, and other community facilities in TOD projects through the provision of capital and technical assistance. The following are examples of CDFI involvement in the development and operation of child care centers in transit areas through the provision of loans and technical assistance grants.

San Leandro BART TOD, San Leandro, California

BRIDGE Housing, the nonprofit developer of the mixed-income TOD project at the San Leandro BART station, wanted to include a child care center to serve 60 low-income children. However, there were concerns that the child care operator would not be able to raise the $800,000 needed for the facility, given the challenging economic climate. LIIF child care staff partnered with a local child care provider and helped to form a broader collaborative to brainstorm options to move the project forward. In partnership with First Five Alameda, LIIF restructured its grant program in order to make a $100,000 facility grant – double its previous maximum grant size. This early financial commitment energized the collaborative of city and community-based organizations and gave the child care operator, Davis Street, the confidence to move forward with the creation of the child care center. To further advance the early stages of the project, LIIF provided a $20,000 planning grant to allow the child care operator to engage in additional feasibility work, as well as program, business, and design planning. In addition to its financial assistance, LIIF provided critical technical assistance to ensure that the child care center was well-designed and appropriate for the number and ages of children that it planned to serve.

Ashby BART TOD, Berkeley, California

The Ed Roberts Campus at the Ashby Street BART station will house seven nonprofit organizations that provide services to people with disabilities. One of these organizations is Through the Looking Glass (TLG) which was tapped to operate a 24-slot child care center at the Campus. TLG is a nationally recognized organization that provides in-home services to families in which a parent or child has a disability but it had never operated a child care center. LIIF provided capital and technical assistance to support the planning and development of the child care center at the Ed Roberts Campus. In addition, TLG applied for and received a nearly $1 million annual contract from early Head Start to serve infants and toddlers in Alameda County with disabilities. This was an enormous advance for TLG in terms of its ability to serve children with disabilities today and in the years ahead.

TOD Property Acquisition Funds

One of the key current gaps in debt and equity resources for financing affordable TOD lies in the acquisition and holding of property for development or redevelopment. In general, property acquisition is a challenge for affordable housing projects given the exclusion of land from the basis for tax credits, the most widely used source of subsidy financing for affordable housing. For affordable TOD, this is compounded by the scarcity and frequent higher cost of land near transit. A combination of limited short-term debt resources and questions about the timing of long-term project financing restricts the ability of affordable housing developers to secure land opportunistically. This property acquisition and predevelopment cost financing gap is a major impediment to the realization of equitable TOD.

In response to this widespread problem, affordable housing property acquisition funds have emerged over the past 10 plus years as an innovative socially responsible investment tool. The most common model is that of a low-interest, short-term (i.e. five year) loan fund that issues loans at rates sufficiently low to allow affordable housing developers to secure land as opportunities arise and before traditional affordable housing financing mechanisms become available. The majority of these mission-driven loan funds attracts multiple investors with differing risk tolerances and return expectations. Investors include public sector entities with funding streams that can be dispersed without interest expectations, community foundations with project or mission-related investment funds that have below market-rate return expectations, community development finance institutions that make below-market rate loans and major commercial banks seeking investments that satisfy CRA requirements. The interest rate and other terms of the loan product offered, as well as the size of the fund, results from a combination of various investors return requirements and the leveraging of market rate

commercial debt by the no or low return investments. Borrowers make payments back into the fund, which either revolves to allow additional lending, or is held as security until the fund expires and investors are repaid.

Nationally, CTOD is aware of 15 affordable housing loan or direct acquisition funds, as well as one TOD property acquisition fund, that are currently operating or under development. Of these, six are directed in part, or entirely, to transit locations. These funds include the Metro Transit-Oriented Development Program, established in 1998 in Portland, Oregon, the Hiawatha LRT Land Assembly Fund (2005) and Capital Acquisition Revolving Loan Fund (2006), both in Minneapolis, the Denver TOD Fund (2007), the Seattle Housing Levy Acquisition and Opportunity Loan program (2010) and the Bay Area TOD Revolving Loan Fund, currently under development for the San Francisco Bay region. These funds range from grant funds (Hiawatha) to direct acquisition funds (Portland Metro) to revolving loan funds (Capital Minneapolis, Seattle, and Bay Area). All have some amount of public investment that takes a critical "top loss" or lead equity position and leverages investment from other more risk-averse investors.

CTOD conducted detailed analysis of three of these funds, the New York City Acquisition Fund (closed 2006) the Denver TOD Fund (closed 2010), and the Bay Area TOD Revolving Loan Fund (fund investment structure currently under development). The profiles, contained in Appendix B of this report, include the fund's purpose, investors and structure, management, loan terms, brief history of the fund and particular issues faced in fund development and management, and are summarized below.

Areas of Mismatch

Up to this point, CDFIs have mainly focused on making investments to serve low-income people through the facilitation of individual new construction projects in transit areas. Many of the activities that have been funded are crucial components to creating "complete" neighborhoods and successful TODs, but each is financed separately, and the investments have rarely been concentrated in a single neighborhood.

CDFI involvement in TOD implementation may be limited to some degree by the constraints of their capacity and resources vis-à-vis the types of interventions and investments that are needed in some TOD neighborhoods. Some of these constraints are listed below:

High costs and long holding periods for TOD projects. There is a significant lack of short-term, inexpensive financing for acquisition of land and property for affordable housing prior to availability of permanent financing. This problem is compounded for TOD, given the cost and scarcity of sites near transit, as well as the length of time needed to see a project through completion. Most inves-

tors are not able to wait 10 to 20 years to receive a return on their investment.

TOD project financing is often restricted to low-income transit areas. Due to the restrictions of the federal programs that capitalize them, many CDFI investments may be limited to projects located in low-income neighborhoods. However, not all TOD neighborhoods are located in low-income areas, and many higher income station areas could benefit from mixed-income housing development, as well as investments in place-making amenities, community services, and infrastructure. Provisions in the 2008 Housing and Economic Recovery Act decreased the broad federal emphasis on steering credit toward high poverty areas, allowing greater opportunity for affordable housing near transit.[20] However, there is still no inclusion of transit in the many place-based designations for preferred lending, for example qualified census tracts. If low-income households are to have access to transit, a preference for transit locations in lending is needed.

Lack of "soft" funds for infrastructure and neighborhood services. As discussed above, many of the essential building blocks of TOD, such as parks, streetscape, sidewalks, parking garages, and underground infrastructure, do not generate the revenue streams required for the lending tools that CDFIs usually provide. Federal funding sources for these activities is insufficient to meet the needs of many communities.

Lack of capacity of local CBOs and CDCs is pervasive in many TOD neighborhoods. Many neighborhoods lack a strong local community builder to advance the cause of equitable TOD. Though there may be a role for some CDFIs to get involved as a convener for planning equitable TOD, engagement in these activities would require a great deal of "soft" funds.

Recommendations for CDFI Involvement in TOD

CTOD has identified opportunities for CDFIs to expand their role in TOD to include the following four areas:

- Provide gap financing for construction and rehabilitation/preservation of affordable housing projects;
- Formation of additional regional structured funds to finance TOD projects;
- Informing federal policy debate on key issues; and
- Engagement with metropolitan planning organizations (MPOs) in regional TOD planning.

Provide unconventional financing for TOD projects, including new construction housing preservation

As shown in the examples of past CDFI involvement in TOD, CDFIs have a very important role in providing capital to fund affordable housing and child care centers in transit areas. The projects that receive financing need to include a diversity of development types. Infill, rehabilitation, and preservation will play crucial roles in making TOD affordable and equitable. Preservation of existing affordable housing is a particularly good use of property acquisition funds, because the revenue stream from existing properties can help to offset the holding costs associated with land acquisition.

Formation of Regional TOD Acquisition Funds

As described above, there is a need for upfront, low-cost financing for property acquisition in TOD areas for the preservation and development of affordable housing. In response to this need, the model of structured, multi-investor loan funds for predevelopment and acquisition has proliferated across the country over the past five to ten years. Based on a case study analysis of three regional acquisition funds (see Appendix B), CTOD has developed the list of recommendations and strategies to pursue this tool to promote equitable TOD:

Develop funds at the regional scale.

In keeping with commute sheds, transit systems are typically regional in scope and ideally, acquisition funds should be similarly scaled. Regions in California and other parts of the country, like Portland Metro in Oregon, have well-established regional planning forums and funding avenues that offer opportunities for attracting public subsidy at the regional level (i.e. use of regional transportation funds). Without a regional public funding mechanism, however, it is challenging for metropolitan areas to succeed in creating regional funds, because local sources of subsidy are restricted to their cities of origin and challenging to blend. For example, the City of Seattle recently created a $6.5 million Acquisition and Opportunity Loan program (2010-2016) as part of the $145 million Seattle Housing Levy adopted by voters in 2009.[21] This fund, which prioritizes transit locations, has potential for leverage, but can only be spent in Seattle. While regionally-scaled funds are ideal, the additional pressure on land, higher housing costs and concentration of transit in central cities, does mean that local funds can also go far in targeting the key equitable TOD locations in many regions.

20 Newport Partners, LLC, "Strategies for Expanding Affordable Housing Near Transit," May 2010.

21 The Seattle Office of Housing is currently investigating ways to develop a regional fund and invest some portion of A and O funds.

Both public and foundation investments are crucial to the success of acquisition funds in delivering loan products that meet the critical housing finance gap in a given city or region.

Structure funds with public subsidy investments and foundation program-related investments for absorption of risk and below market return expectations.

Both public and foundation investments are crucial to the success of acquisition funds in delivering loan products that meet the critical housing finance gap in a given city or region. The key desired loan traits are likely to be some combination of an interest rate at or below prime, higher loan-to-value ratio, longer term, larger loan amount, and softer recourse requirements.

Some of these terms, i.e. a lower interest rate or longer term, do not require investors to take on additional risk, but lower the financial return from the fund to investors. Mission and program-related investments from foundations, with current return expectations of approximately 6 to 7 percent and 1 to 4 percent, respectively, as well as no-return grant investments from various public sources are key to lowering the cost of financing provided by these funds. Depending on the type of fund, foundation PRI investments and public grant investments can be blended with the bank debt to produce a lower interest rate.[22]

The majority of the softer terms needed for these funds, however, involve a greater risk of default given that the loans are less valuable and less securitized. Additionally, despite the various measures for ensuring timely permanent financing and the 100 percent take-out success rate of the New York Acquisition Fund, each short-term predevelopment loan bears the risk that the project will not find permanent financing. Because of this, attracting capital that has a high tolerance for risk is the critical first step in developing an acquisition.

In order to launch, or "close" a multi-investor fund, the fund developer/manager must, in negotiation with investors, determine the "risk waterfall," or which investments absorb potential successive loan defaults. The public investment in these funds invariably occupies the top loss risk position in the risk waterfall; at this time, grant funds appear to be the only type of investment that can tolerate the potential of loss should just one loan default. Foundation investments generally assume the secondary loss position, should additional loans go bad. Senior debt, assembled by the CDFI fund developer from commercial banks meeting their Community Reinvestment Act obligations, typically absorbs the bottom 50 percent of loss risk.[23] Because senior debt will not take on more than the bottom 50 percent of risk, the amount of this top loss investment, in addition to secondary loss position investments, largely determines the potential size of the fund and its allowable loan to value ratio. This makes the securing of public subsidy investment critical to the establishment of a fund.

Funds require experienced developers and managers.

A successful acquisition fund developer/manager should have a sufficient breadth and depth of local affordable housing finance experience, credibility and relationships to be able to identify the exact nature of the local financing gap and terms of the desired loan product, evaluate the local/regional finance resources and determine the optimal structure of the fund, and attract public, foundation and bank capital. The manager must also have relationships with local non-profit and for-profit affordable housing developers and be able to effectively evaluate whether an applicant project has sufficient long-term financing prospects to merit a subsidized short-term predevelopment/property loan.

High capacity CDFIs and, potentially, pro-active housing finance authorities are among the only institutions with enough direct affordable housing lending experience and on-the-ground knowledge of a region's real estate finance industry to assemble a multi-investor, short-term acquisition fund.[24] Even smaller, regional CDFIs may not have the capacity to develop and operate structured funds, though their participation in free-standing multi-CDFI fund entities (as in the Bay Area Fund) and inclusion as an originator of loans (as in the NYC Acquisition Fund) expands the reach of these funds and builds local financial expertise. None of these three funds, or the majority of other structured acquisition funds, would have moved forward without early leadership or support from Enterprise Community Partners, Inc./Enterprise Community Loan Fund or the Low Income Investment Fund.

Different regions/cities have different equitable TOD housing needs and financial resources; one size and type of fund does not fit all.

Those working to initiate acquisition funds in their region or community should look carefully at their critical

22 Alternately, it may be part of a guarantee pool that leverages the loan-to-value ratio requirement and overall size of the fund, with its return expectation met by higher-return outside investments that earn the fund additional operating capital.

23 There may also be additional tiers of loss absorption between the top loss position and the senior debt, depending on the size of each investment.

24 While no public housing finance authority has yet to launch a multi-investor fund (the Portland Metro TOD Fund is strictly public), it may be possible for an innovative authority that does a significant portion of the affordable lending in a locality. Potential obstacles include conflicts between compartmentalization of risk and public oversight and challenges in attracting foundation capital.

TOD housing pre-development/acquisition need, because different needs require different loan products (i.e. preservation requires larger loans than land acquisition).

The landscape of financial resources is different from state to state and region to region. The scale of public subsidy available, depth and extent of foundation sector investment resources, number and sophistication of CDFIs, interest of regional banks, as well as the local debt leverage ratio will play a large part in determining the appropriate structure and size of a given regional or city fund. The availability of permanent financing is also critical in determining the appropriate scale of the fund. As described, the Denver TOD Fund acquisition loan capacity is currently limited by the region's reliance on federal Low Income Housing Tax Credits for take-out financing. Because Denver can anticipate only two local LIHTC projects per year, the fund cannot have more than two loans expiring annually.[25] While LIHTC financing is the predominant affordable finance tool across the country, other regions/cities such as New York City and Seattle have additional local resources for permanent financing. Regional funds can anticipate more LIHTC allocations annually, but must locate sources of public subsidy that apply across municipal boundaries.

The optimal financial structure for an affordable TOD acquisition fund will depend on the financing need and resources of a particular region or city, as described above. Depending on these two factors, a fund may be most efficient either maintained internally at a CDFI (as in Denver) or as a stand-alone fund (as in New York City and the Bay Area). If the key loan term is a high loan-to-value ratio, the subsidy funds may be most effectively leveraged as a distinct guarantee pool, as in New York and the New Generation Fund in the City of Los Angeles. If, on the other hand, a lower interest rate is the key term, blending subsidy investments with bank capital may produce the optimal loan product.

Plan for a lengthy, resource-intensive fund development process.

All three funds took approximately two to three years from initial conception to close, or anticipated close, of the fund. Identifying the housing finance need, targeting of priority transit locations, and making the case for a fund in order to attract public and foundation investment are necessarily time-extensive collaborative processes if a fund is to have sufficient support to move forward. Once interested investors are in agreement on the basic goals of the fund, a financial commitment and a fund manager, the fund manager must accomplish the complex task of determining the optimal fund structure while in on-going

negotiation with investors. Based on the experience of these three funds, a minimum six- to nine-month period for development of the fund structure should be expected.

Investigate opportunities for regionally-directed federal funding or financing tool with significant leverage potential.

The emergence of flexible transportation funds and other non-housing sources of public funding as major sources of top loss capital for affordable TOD property acquisition loan funds raises many questions. The lengths to which regional and local governments are going to secure subsidy funds attests to the need for either a permanent, dedicated federal housing finance tool that applies to land and property for affordable housing near transit, or else a source of federal grant funding that is dedicated to this purpose and can be used to leverage other debt. In the Bay Area, land costs near transit are such that if the fund leverages four to six times the MTC investment, as currently estimated, approximately 12 to 20 projects might receive loans at a time; in a nine-county area with significant transit, this is unlikely to meet the demand from quality potential projects. A dedicated federal credit enhancement or competitive subsidy fund program for land and property acquisition for equitable TOD could be an efficient use of federal housing resources. Both the demonstrated support of the foundation sector and the proven ability of CDFIs to leverage considerable additional debt and provide an otherwise non-existent loan product indicate potential for a successful program.

Informing Federal Policy

CDFIs are part of the solution for implementing TOD, but the involvement of these institutions requires the participation of various partners. First and foremost,

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25 Enterprise Community Partners, Inc., and the Urban Land Conservancy are currently trying to expand the scope of the fund to be regional, which would encompass a greater number of LIHTC deals annually and therefore allow more acquisition loans, but must first locate sources of top loss public investment from outside Denver.

If low-income households are to benefit from regional transit infrastructure, there is a need to steer credit to encourage lending in transit locations.

it is important to have strong public sector engagement, including policies supportive of equitable TOD at the federal level. CTOD's research of federal programs and their ability to meet the challenges posed by TOD reveals that there are numerous areas where policy reform could make a big difference. There is a potential role for CDFIs to inform the public policy debate in the following areas:

National TOD requirement for LIHTC allocation

Allocation of LIHTC varies by state. While nearly three-quarters of states have some type of TOD allocation priority, they each define TOD differently, and the federal government has not prioritized the location of affordable housing near transit. Because LIHTC plays a critical role in affordable housing financing, a standardized TOD prioritization at the federal level would have a major impact in many regions, and would help CDFIs to standardize products.

Steering credit towards transit areas

There is no inclusion of transit in the many place-based designation for preferred lending under CRA and Tax Credit programs, which steer credit towards high-poverty and low-income census tracts. If low-income households are to benefit from regional transit infrastructure, there is a need to steer credit to encourage lending in transit locations.

Federal subsidy for child care facilities

LIIF and Impact Community Capital have operated a successful affordable child care facility finance program combining NMTC with philanthropic, state, and local funding sources. Since the economic downturn, however, these additional sources of subsidy have evaporated, and few loans have been issued. There is a need for a dedicated source of federal subsidy for child care facilities in transit areas in order to ensure that essential community services are part of the equitable TOD agenda.

Engaging with regional and local governments to ensure equitable TOD

In order to be able to push the TOD agenda towards equity, CDFIs should be included in a more robust role in regional and local planning efforts prior to implementation. Regional transit agencies, MPOs, and local governments have resources to fund the acquisition and assembly of properties, planning and technical assistance, infrastructure improvements, community facilities, and affordable housing subsidies. MPOs and regional transit agencies also provide leadership at the metropolitan level urging cities to plan for higher density, mixed-income neighborhoods in transit areas. CDFIs can add a wealth of experience in early planning to help bring in the equity component. CDFIs could assist MPOs to modify their station area planning processes to explicitly include equitable development, going beyond affordable housing to reinforce the critical role that essential services (e.g., infrastructure, child care, health services, libraries, recreational facilities) play in building healthy communities.

Emerging Opportunities

In addition to the recommended areas of involvement above, CTOD also identified other potential areas for CDFIs to engage in TOD. However, each of these would require a significant amount of soft funds from the public or philanthropic sectors. These areas include:

- Financing neighborhood infrastructure;
- Providing assistance to MPOs and/or local governments in developing sound underwriting standards to evaluate grants and loans to finance TOD infrastructure and projects;
- Dissemination of best practices to educate public policy-makers about ways to include the human services components of equitable TOD into their plans.

Financing TOD Infrastructure

CTOD has explored the potential of forming regional infrastructure banks to finance this type of infrastructure. There are no existing examples of regional infrastructure banks in the United States; however, there are existing state infrastructure banks that can help to inform the discussion. State infrastructure banks (SIBs) were first authorized in 1995 by the National Highway System Designation Act as a pilot program for 10 states, which was opened up by the U.S. DOT in 1997 to extend eligibility to all states. In 1998, The Transportation Equity Act for the 21st Century (TEA-21) allowed four states, including California, Florida, Missouri and Rhode Island to use TEA-21 funds to further capitalize their SIBs. In 2005, SAFETEA-LU permitted states to transfer a small amount of Highway Trust Fund allocations to their SIBs. The majority of SIBs have formed revolving loan funds for transportation projects, usually housed within the state Department of Transportation. A summary of SIBs is provided in the Appendix to this report.

Most SIB loans fund large-scale capital transportation projects such as highways, bridges, toll roads, etc. SIB loans can serve a niche in the credit market that is not currently met by the private market or municipal bond market by providing the following:

- Credit enhancement – SIBs can finance projects where the revenue stream may be irregular or "lumpy."
- Lower risk – SIB loans finance projects for which a bond issue would be too risky or too expensive.
- Finance multi-jurisdictional projects – SIB financing facilitates multijurisdictional projects by pooling small borrowers.
- Finance smaller projects – Many bond markets are not interested in financing projects under $4 to $5 million. SIBs can fund much smaller projects.
- Lower cost – SIBs offer lower interest rates than bond market.
- Serve as an alternative to pay-as-you-go financing – Some cities have been able to accelerate infrastructure projects by accessing low-cost SIB loans in order to get their projects started in advance of receiving revenues.
- Leverage – According to the FHWA, SIB investments (loans and grants) leverage 5:1 from private and non-Federal public sources.[26]
- Flexibility – Unlike traditional sources of credit, local governments have a great deal more flexibility with the use of and repayment of SIB loans.

Despite these many advantages, the applicability of SIBs to public transit and TOD is unclear. Only a small number of states have made loans for public transit projects, and these have been primarily in investments like purchase of vehicles or bus shelters, which can provide some revenue stream through advertising. The ability to use SIB loans for transit capital costs is questionable. Most public transit systems do not generate sufficient transit to be able to pay debt service, and must rely on grants for construction costs.

MPOs in the Bay Area (MTC) and Portland (Metro) have been exploring the idea of forming regional infrastructure bank that would allow them to leverage more dollars to finance public infrastructure than the grants-only models that they currently operate under. However, the source of capitalization of these funds is unclear, especially for regional entities, which have limited sources that could go towards this kind of fund. Portland Metro is considering innovative new sources of revenue, such as transportation project fees, fuel taxes, or real estate transfer fees, in order to get the fund started. Another constraint is the need to fund infrastructure projects that can generate income streams to pay back loans from an infrastructure bank. This limits the potential for infrastructure financing to revenue-generating projects such as public parking garages and renewable energy infrastructure.[27] Other necessary neighborhood improvements like street trees and sidewalks could not be funded under a revolving loan fund model. However, if a regional infrastructure bank can be capitalized through new revenue sources, and be used to finance revenue-generating uses, it may allow for localities to free up grant funds for other types of non-financeable infrastructure improvements.

Portland Metro is considering innovative new sources of revenue, such as transportation project fees, fuel taxes, or real estate transfer fees, in order to get the fund started.

CDFIs have a potential role in the development of regional infrastructure banks or revolving loan funds one or more of the following ways: researching the feasibility of developing such a fund; advising MPOs in structuring and developing the fund; managing the fund once it is developed; and/or assisting MPOs with the application of the capital.

Assist local governments and MPOs with allocation decisions

CDFIs can play an important role as the "objective screen" for the public sector, by setting up solid underwriting and other standards, for the allocation of grants and loans for equitable TOD.

Dissemination of best practices

Many local and regional governments are fairly unsophisticated in planning and implementing TOD. With their wealth of experience, CDFIs can provide decision-makers with information about best practices from a variety of places, which can help to guide them towards making equity a central component in the planning process. As the San Leandro experience shows, early engagement with community builders and policymakers can make a tremendous difference, as long as there is a champion in the philanthropic and/or public sector.

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26 Federal Highway Administration, "Innovative Finance: SIB Primer," 1997.

27 For instance, green utilities generate revenues from user fees that can help to repay the capital costs of their expansion or upgrades.

Appendix A: Inventory of Federal Programs Related to Transit Oriented Development

Department	Program	Funding objective	Project Type
DOC	Public Works Investments Grants	Public Works and Economic Development investments help support the construction or rehabilitation of essential public infrastructure and facilities.	Infrastructure
DOC	Economic Adjustment Assistance	Can be used to finance property assembly, land preparation, rehabilitation and relocation in economically distressed communities.	Affordable Housing
DOE	Qualified Energy Conservation Bonds	$2.4 million to: fund capital expenditures for reducing energy consumption, implementing green programs, and renewable energy; fund research expenditures; fund facilities that reduce energy consumption; fund demonstration projects promoting commercialization of green buildings and advanced green technology; and, fund public education campaigns that promote energy efficiency.	Infrastructure
DOT	TIGER II	To provide capital assistance for investment in surface transportation infrastructure.	Infrastructure and Planning
DOT/FHWA	Congestion Mitigation and Air Quality Improvement Program	Provide Federal credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to finance surface transportation projects.	Infrastructure
DOT/FHWA	Surface Transportation Program	The Surface Transportation Program provides flexible funding that may be used by States and localities for projects on any Federal-aid highway, including the NHS, bridge projects on any public road, transit capital projects, and intercity and intercity bus terminals and facilities	Infrastructure
DOT/FHWA	Transportation Enhancements	To help expand transportation choices and enhance the transportation experience	Infrastructure
DOT/FRA	Railroad Rehabilitation and Improvement	Acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of track, bridges, yards, buildings and shops; refinancing outstanding debt	Infrastructure
DOT/FTA	Metropolitan and Statewide Planning	Funds planning activities that support economic vitality, increase transportation safety and security, increase accessibility and mobility, protect and enhance the environment, promote consistency between State and local planned growth, enhance connectivity of transportation system, promote efficient management, and emphasize preservation of existing transportation.	Planning
DOT/FTA	Large Urban Cities	Provide funding for urbanized areas and transportation related planning, including the planning, engineering design, evaluation of transit projects, and capital investments.	Infrastructure
DOT/FTA	New Starts Small Starts	To support locally planned, implemented, and operated major transit capital investments. Projects include commuter rail, light rail, heavy rail, bus rapid transit, streetcars, and ferries.	Infrastructure
DOT/FTA	Alternatives Analysis	Assist in financing the evaluation of all reasonable modal and multimodal alternatives and general alignment options for identified transportation needs in a particular, broadly defined travel corridor.	Infrastructure
DOT/FTA	Transportation Enhancements	Help expand transportation choices and enhance transportation through 12 eligible TE surface transportation activities, including pedestrian & bicycle infrastructure and safety programs, landscaping beautification, historic preservation, and environmental mitigation.	Infrastructure
DOT/FTA	Flexible Funding for Highway and Transit	Provide local areas with choices to use Federal surface transportation funds based on local planning priorities, not on a restrictive definition of program eligibility.	Infrastructure
DOT/FTA	Section 5303 - Metropolitan Planning	Provide funding to support cooperative, continuous, and comprehensive planning for making transportation investment decisions in metropolitan areas and statewide.	Planning
DOT/FTA	Section 5304 - Statewide Planning	Provides funding to support cooperative, continuous, and comprehensive planning for making transportation investment decisions in metropolitan areas and statewide.	Planning
DOT/FTA	Section 5305 - Planning Programs	Provide funding to support cooperative, continuous, and comprehensive planning for making transportation investment decisions in metropolitan areas and statewide.	Planning
DOT/FTA	Urbanized Area Formula Program	Provide transit capital and operating assistance in urbanized areas and for transportation related planning.	Planning
DOT/FTA	Formula Grants for Other than Urbanized Areas	Provide transit capital and operating assistance in urbanized areas and for transportation related planning in rural communities.	Infrastructure
DOT/FTA	Alternatives Analysis	To assist in financing the evaluation of all reasonable modal and multimodal alternatives and general alignment options for identified transportation needs in a particular, broadly defined travel corridor.	Planning
DOT/FTA	Bus and Bus Facilities	Provide capital assistance for new and replacement buses, related equipment, and facilities. It is a discretionary program to supplement formula funding in both urbanized and rural areas.	Infrastructure
DOT/FTA	Fixed Guideway Modernization	Provides capital assistance to modernize or improve existing fixed guideway systems.	Infrastructure
EPA	Brownfields Revolving Loan Fund Grant	Create revolving loan funds to clean brownfield sites and provide grants for planning, assessment, and clean up.	Infrastructure
EPA	Cleanup Grant	Cleanup grants provide funding for a grant recipient to carry out cleanup activities at brownfield sites.	Infrastructure
EPA	Targeted Brownfields Assessments	Provide a service that directs contractors to conduct environmental assessment activities to address the requestor's needs.	Infrastructure
EPA	Brownfields Area-Wide Planning Pilot Program	Assistance given to brownfields-impacted areas for developing an area wide plan and identifying next steps and resources needed to implement the plan.	Infrastructure
HUD	Community Challenge Grants	Provide grants to develop and implement plans consistent with goals of the Partnership for Sustainable Communities.	Planning
HUD	Sustainable Communities Regional	To support multijurisdictional and metropolitan planning efforts.	Planning

Department	Program	Funding objective	Project Type
HUD	Section 108 Loan Guarantee	Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program. It allows local governments to transform a small portion of their CDBG funds into federally guaranteed loans large enough to pursue physical and economic revitalization projects that can renew entire neighborhoods.	Affordable Housing, Infrastructure, Community Facilities
HUD	Brownfields Economic Development Initiative Grant	Enhance security and viability of a brownfield redevelopment project that is financed under the Section 108 loans.	Affordable Housing, Infrastructure, Community Facilities
HUD	Expensing of Environmental Remediation Costs	Also commonly referred to "Federal Brownfield Remediation Costs." Allows taxpayers to not charge expenses for the abatement or control of hazardous substances on a qualified contaminated site, in their capital account.	Infrastructure
HUD	HOME	HOME provides formula grants to States and localities that communities use-often in partnership with local nonprofit groups-to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income people.	Affordable Housing
HUD	Choice Neighborhoods	Revitalize severely distressed public and assisted housing and investing and leveraging investments in well-functioning services, effective schools and education programs, public assets, public transportation, and access to jobs.	Affordable Housing, Infrastructure, Community Facilities
HUD	Community Development Block Grants	To ensure decent affordable housing, community services to vulnerable neighborhoods, and job creation and retention of businesses.	Affordable Housing, Infrastructure, Community Facilities
HUD	Qualified Redevelopment Bonds	Bonds for governmental acquisition of distressed property, site preparation, site rehabilitation or relocation of tenants.	Affordable Housing
HUD	Section 202 - Supportive Housing for the Elderly	Provide capital advances to finance the construction, rehabilitation or acquisition that will serve as supportive housing for very low-income elderly persons	Affordable Housing
HUD	Section 221 Mortgage Insurance for Moderate Income	insures mortgage loans to facilitate the new construction or substantial rehabilitation of multifamily rental or cooperative housing for moderate-income families, elderly, and the handicapped.	Affordable Housing
HUD	Section 542 - Risk-Sharing	provides credit enhancement for mortgages of multifamily housing projects whose loans are underwritten, processed, serviced, and disposed of by housing finance authorities.	Affordable Housing
SBA	CDC/504	Provides small businesses requiring “brick and mortar” financing with long-term, fixed-rate financing to acquire major fixed assets for expansion or modernization	Community Facilities
SBA	Microloan Program	Provides short-term loans for working capital to small businesses and not-for-profit child-care centers needing small-scale financing and technical assistance for start-up or expansion	Community Facilities
Treasury	New Markets Tax Credits	Give tax credits to investors in exchange for stock or capital interest in Community Development Entities. The federal subsidy goes to qualifying projects in the form of below-market interest rates and more flexible loan terms like longer amortizations and higher loan-to-value ratios.	Community Facilities
Treasury	Build America Bonds	The Build America Bond program is designed to provide a federal subsidy for a larger portion of the borrowing costs of state and local governments than traditional tax-exempt bonds in order to stimulate the economy and encourage investments in capital projects	Infrastructure
Treasury	Economic Adjustment Grants	The Economic Adjustment Assistance Program provides a wide range of technical, planning and infrastructure assistance in regions experiencing adverse economic changes	Community Facilities
Treasury	Low Income Housing Tax Credit	Generate equity capital for the construction and rehabilitation of affordable rental housing.	Affordable Housing
Treasury	Neighborhood Initiative Grants	Promote the construction and rehabilitation of affordable housing and community education programs.	Affordable Housing
Treasury	Community Development Financial Institutions Fund	Expand capacity of financial institutions to provide credit, capital and financial services to underserved populations. Promote local economic growth and access to capital through direct investments and technical assistance, tax credits, bank incentives, and financial and training incentives.	Affordable Housing, Infrastructure, Community Facilities
Treasury	Exempt Facility Bonds for Mass Commuting	Private activity bonds issued to finance various types	Infrastructure
Treasury	Transit Grant Anticipation Notes	Transit agencies can also borrow against future Federal-aid funding. While transit bonding is quite similar to highway bonding, the transit bonds are referred to as GANs.	Infrastructure
USDA	Community Facilities Grants and Loans	Develop essential community facilities for public use in rural areas. These facilities include schools, libraries, childcare, hospitals, medical clinics, assisted living facilities, community centers, public buildings and transportation.	Community Facilities
USDA	Rural Development, Business and Cooperative Program	Fund acquisition or development of land, easements, or rights of way; construct, convert, or renovate buildings, access streets and roads, parking areas, utilities; capitalize revolving loan funds that finance loans for start ups and working capital; train and give technical assistance; improve rural transportation; fund project planning	Infrastructure and Community Facilities
USDA	Rural Energy for America Program Guaranteed Loan	Encourages the commercial financing of renewable energy (bioenergy, geothermal, hydrogen, solar, wind and hydro power) and energy efficiency projects.	Infrastructure
USDA	Business and Industry Guaranteed Loans	Improve, develop, or finance business, industry, and employment and improve the economic and environmental climate in rural communities.	Community Facilities

Source: Compiled by Strategic Economics, 2010

Appendix B: Profile of Structured Funds for Equitable TOD Property Acquisition and Predevelopment

One of the key current gaps in debt and equity resources for financing affordable TOD lies in the acquisition and holding of property for development or redevelopment. In general, land acquisition is a challenge for affordable housing projects given the exclusion of land from the basis for the Low Income Housing Tax Credit program, the most widely used source of subsidy financing for affordable housing. For affordable TOD, this is compounded by the scarcity and frequent higher cost of land near transit, and the need to compete with the private market to acquire properties. A combination of limited short-term debt resources and questions about the timing of long-term project financing restricts the ability of affordable housing developers to secure land and properties opportunistically. This property acquisition and predevelopment cost financing gap is a major impediment to the realization of equitable TOD.

In response to this widespread problem, affordable housing property acquisition funds have emerged recently as an innovative, socially responsible investment tool. The most common model is that of a low-interest, short-term (five to seven years) loan fund that issues loans at rates sufficiently low to allow affordable housing developers to secure land as opportunities arise and before traditional affordable housing financing mechanisms become available. The majority of these mission-driven loan funds attracts multiple investors with differing risk tolerances and return expectations. Investors include public sector entities with funding streams that can be dispersed without interest expectations, community foundations with project or mission-related investment funds that have below market-rate return expectations, community development finance institutions that make below-market rate loans and major commercial banks seeking investments that satisfy CRA requirements. The interest rate and other terms of the loan product offered, as well as the size of the fund, results from a combination of various investors return requirements and the leveraging of market rate commercial debt by the no or low return investments. Borrowers make payments back into the fund, which either revolves to allow additional lending, or is held as security until the fund expires and investors are repaid.

Nationally, the Center for Transit-Oriented Development is aware of 15 affordable housing loan or direct acquisition funds, as well as one TOD property acquisition fund, that are currently operating or under development. Of these, six are directed in part, or entirely, to transit locations. These funds include the Metro Transit-Oriented Development Program, established in 1998 in Portland, Oregon, the Hiawatha LRT Land Assembly Fund (2005) and Capital Acquisition Revolving Loan Fund (2006), both in Minneapolis, the Denver TOD Fund (2010), the Seattle Housing Levy Acquisition and Opportunity Loan program (2010) and the Bay Area TOD Revolving Loan Fund, currently under development for the San Francisco Bay region. These funds range from grant funds (Hiawatha) to direct acquisition funds (Portland Metro) to revolving loan funds (Capital Minneapolis, Seattle, and Bay Area). All have some amount of public investment that takes a critical "top loss" or lead equity position and leverages investment from other more risk-averse investors.

The following section profiles three of these funds, the New York City Acquisition Fund (closed 2006) the Denver TOD Fund (closed 2010), and the Bay Area TOD Revolving Loan Fund (fund investment structure currently under development); profiles includes the fund's purpose, investors and structure, management, loan terms, brief history of the fund and particular issues faced in fund development and management. Lessons learned from comparison of the funds are incorporated into the body of the report.

New York City Acquisition Fund, New York City, New York ($265 million, closed 2006, 23 loans issued)[1]

Purpose of Fund: Short-term financing for pre-development, property acquisition and environmental remediation financing for new construction and preservation of at-risk affordable housing in the five boroughs of New York City. Provide source of ready capital with high loan-to-value ratio and capacity for larger loan size to bridge affordable housing finance gap prior to close of construction loan.

Investors and Fund Structure: An $8 million top loss loan from New York City and $32.65 million in program-related investments (PRI) from six national foundations provides a guarantee pool sufficient to leverage a loan-to-value ratio of up to 130 percent for non-profits and up to 95 percent for for-profits from a base loan-to-value requirement of 50 to 70 percent from $200 million in senior debt from 16 financial institutions. The City and foundation funds take the majority of the top tiers of loss, so that the senior lenders are only responsible for losses below 50 percent of the value of land acquisitions and 25 percent of preservation loans.[2] The guarantee facility is not part of the lending capital, the Fund is free-standing, and loans may be originated by five different CDFIs, including Enterprise Community Loan Fund and the New York City Housing Development Corp. Interest expectations of 1 to 3 percent on the PRI funds are met through outside investments with returns of approximately 5 percent.

Fund Management: The Fund is operated on a day-to-day basis by Forsyth Street Advisors, LLC, an agent of Enterprise Community Investment, Inc., the manager of the fund. National Equity Fund, Inc. is co-manager and JP Morgan Chase Bank N.A. serves as administrative agent for the bank syndicate. The Credit Committee includes the two managers, administrative agent, and the New York City Department of Housing Preservation and Development and New York City Housing Development Corporation.

Project Loans: The Fund offers loans of up to $7.5 million for vacant properties, and up to $15 million for occupied residential buildings in need of preservation. Loans are available for a maximum three-year term at a variable interest rate currently indexed to prime. Recourse to borrowers is limited to 25 percent. Maximum loan-to-value is 130 percent for non-profits and up to 95 percent for for-profits. Both non-profit and for-profit borrowers must commit 5 percent of project costs in equity at loan closing. In addition to under-writing requirements, borrowers must meet charitable requirements regarding either income-level restrictions or location in a blighted area. Finally, a soft commitment letter must be provided from a government agency that provides long-term financing or funding. The Fund makes both conforming and non-conforming loans and has closed on 23 loans worth over $101 million, including low-income rental, supportive housing, preservation, mixed-income and ownership. Thus far, no borrower has defaulted, and the average loan has been taken out by construction financing at 14 months, rather than the projected 18 months.

History of Fund: Prior to 2005, New York City met its affordable housing development goals through rehabilitation and redevelopment of its significant stock of *in rem* properties (taken for back taxes). However, by 2004, this resource was reaching exhaustion at the same time that the on-going acceleration

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[1] Profile drawn from program summary andloan term sheet, Forsyth Street Advisors, LLC, 1/5/2010, "Innovation in Capital Markets: A New Generation of Community Development Funds," My B. Trinth, Bart Harvey Enterprise Fellow, 2009, and interview with Abby Jo Sigal, Vice-President, Enterprise Community Partners, Inc. and NYC Acquisition Fund developer, 7/26/2010.

[2] The originating lender absorbs the first loss up to 2percent of the loan amount and the Fund itself takes the next loss up to 1percent of outstanding project loan principal. The City's 3rd loss position up to $4MM (Battery City Park Reserves) is the key top loss position in this fund, given its magnitude.

of the market-rate housing industry threatened the ability of affordable housing developers to secure and preserve quality properties for low-income and workforce housing. While New York City has relatively substantial public resources for permanent financing of affordable housing, the lack of short-term pre-development financing options made it difficult for affordable housing developers to act opportunistically as properties became available; the City's ability to cheaply transfer its *in rem stock* had previously filled this gap.

Anticipating the exhaustion of this stock, Enterprise Community Partners, Inc., (Enterprise) and the Starr Foundation began discussing ways of meeting the short-term financing gap and in 2005 the Starr Foundation committed $12.5 million in Challenge Grant funds toward the launching of a an acquisition and predevelopment fund. Simultaneously, the City Department of Housing Preservation and Development (HCD), the Ford Foundation and MacArthur Foundation were having a similar conversation. Enterprise and HCD met and determined that the development of a guarantee pool of public and foundation grant and PRI funds would be the most effective way to leverage bank capital and achieve the key loan product terms needed: high loan-to-value ratio, lower interest rate, and limited recourse. In October, 2005, the City committed $8 million in Battery City Park Reserves to the guarantee pool. By August of 2006, Enterprise had assembled a total of $40.65 million in public and foundation reserves and letters of credit for the guarantee facility, leveraging $192.5 million in lending from banks and closed the Fund. Additional lending capacity has augmented the fund as needed since then, for a current total size of $265 million.

The New York City Acquisition Fund was the first such fund with a guarantee structure and has been the model for most of the free-standing funds of significant size that followed. While the Fund does not have a requirement for proximity to transit, the extent of the New York City transit system greatly decreases the need for such a specification.

Issues and Challenges:

- **What is the box? Reaching agreement on the key terms of the conforming loan product**

The loan terms ultimately achieved for the fund are quite different than a typical bank, or even CDFI, loan. A lower interest rate, limited recourse, higher loan-to-value ratio (LTV) and, critically, larger loan size were all necessary to fit the specific acquisition finance need in New York City. For example, few CDFIs provide loans of greater than $3-4MM, but the value of property in New York meant that developers than had to assemble additional financing to buy property; the fund wanted to provide a one-stop shop to enable developers to act quickly. Furthermore, because preservation of existing affordable properties was a goal, and these can range greatly in value, the appropriate loan size target was difficult to determine, let alone reach consensus on given the many different kinds of investors with varying degrees of affordable finance experience. Ultimately, the size of loan offered is $7.5 million for vacant land and $15 million for improved land, a major increase in size over the typical CDFI loan, and the LTV is 95 to 130 percent, considerably more advantageous than the 90 percent usually offered by CDFIs. The fund also makes non-conforming loans.

- **Devolution of authority amongst bank syndicate**

In order for the Fund to issue loans efficiently, the 16-member bank syndicate had to agree to delegate authority both down their internal chain of command and across to a representative administrative agent, ultimately JP Morgan Chase. This took considerable negotiation.

- **Less use of fund with economic downturn and fewer permanent finance resources**

From late 2006 to 2008, the Fund made numerous loans (23 to date). However, since 2009 and the aftermath of the recession, the Fund has made few loans and has not revolved to its capacity. The decrease in the availability of permanent financing, tax credit financing in particular, has had a chilling effect on demand for the fund. The Fund was designed as a short-term (3 year maximum) opportunity-oriented loan fund for projects that would find take-out financing quickly, not for long periods of holding, so it has been affected by larger downturn despite its lending capacity.

- **Non-replicable structure**

Enterprise expected that the experience of developing the New York Acquisition Fund would assist in later development of other structured acquisition loan funds in other places, i.e. Cities of Los Angeles and Atlanta and the State of Louisiana, and reduce the start-up costs for other funds. While Enterprise did learn some basic lessons regarding the necessary loan documents to have, each new fund has evolved out of the financial resources and needs of its locale and assumed an operational and risk distribution structure that bridges these particular resources and needs.

Denver Transit-Oriented Development Fund, Denver, Colorado, ($15 million, closed 2010, 2 loans issued)[3]

Purpose of Fund: Property acquisition finance for the preservation and creation of affordable housing along existing and planned transit corridors in the Denver area. The Denver TOD Fund (Fund) aims to develop and preserve 1200 affordable housing units near transit over 10 years; affordability targets are 60 percent Area Median Income (AMI) or below for rental and 95 percent AMI or below for ownership.

Investors and Fund Structure: The Fund is a credit facility to the Urban Land Conservancy administered by Enterprise Community Loan Fund (ECLF); it is not a stand-alone entity. The total current Fund is $15 million, including $2.5 million in top loss funds from the City of Denver, $1 million in second loss funds from Enterprise Community Partners, and $4.5 million in third loss funds from MacArthur Foundation, Rose Community Foundation and the Colorado Housing and Finance Authority. Senior debt of $5.5 million was assembled by ECLF and the Mile High Community Loan Fund. The Urban Land Conservancy has also contributed $1.5 million in equity investment. Investment return rates are blended to produce a loan interest rate of 3.5 percent.

Fund Management: The Fund is managed by Enterprise Community Loan Fund.

Project Loans: The Urban Land Conservancy is the sole borrower of the Fund and contributes 10 percent of the equity to every project. It partners with for and non-profit developers to identify prospective opportunities and line up likely permanent financing; it then takes out a 3 to 5 year acquisition loan from the fund and purchases sites and properties. It may sell the property to the development partner once permanent financing is available, or, preferably, pay off the loan and hold a long-term land lease to ensure long-term affordability. The Fund has been in operation for only six months, so no loans have yet reached term or been taken out.

Loans terms include a maximum $3 million loan size, 3 to 5 year loan term, 3.5 percent interest rate and maximum loan-to-value ratio of 90 percent. Loans also require initial evidence of permanent financing, appropriate zoning and a viable development partner. The Fund can also make non-conforming loans. The Fund has issued two loans: the first for preservation of existing affordable housing, the second for new development on a site that has interim potential for revenue return through construction staging. A third vacant site is under contract.

History of Fund: After the passing of the FasTracks $4.7 billion regional transit system plan and supporting sales tax in 2004, the City of Denver became concerned with setting the stage for successful TOD along the new light-rail corridors. In 2006 and 2007, a series of reports were written for the Department of Community Planning and Development and Enterprise Community Partners that highlighted the need for a focused effort to include affordable and mixed-income housing in new transit locations, and in particular, recommended the creation of an affordable TOD acquisition fund as a top priority.[4] Enterprise Community Partners, which had already pioneered multi-investor acquisition and preservation funds for affordable housing in Washington, D.C, and New York City and was

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[3] Profile drawn from interview and electronic communication with Melinda Pollack, Senior Program Director, Enterprise Community Partners (Denver, CO), 7/10 and "The Land Acquisition Fund: A Tool for Tough Economic Times," Aaron Miripol, Urban Land Conservancy, 10/20/09.

[4] "Transit-Oriented Development Strategic Plan," Department of Community Planning and Development, City of Denver, Center for Transit-Oriented Development, August, 2006. "The Case for Mixed-Income Transit-Oriented Development in the Denver Region," Enterprise Community Partners, Inc., Center for Transit-Oriented Development, February, 2007.

simultaneously working on funds for the State of Louisiana, the City of Los Angeles and the Atlanta region, saw the need for a financing tool that could assist in the securing of property for development as affordable housing in the new transit corridors. At the same time, the Urban Land Conservancy (ULC), established in 2003 to acquire, develop and preserve community assets in the Denver metropolitan area, began to focus on the transit corridors as priority targets for property conservancy and expressed early interest in investing in an acquisition fund.

Over the next two and half years, as Enterprise evaluated various financial models and raised capital from foundations and bank, the ULC increased its initial commitment (ultimately $1.5 million in equity) and asked for a conservancy role in acquisition and preservation. At the same time, for the underwriting lenders to make a ten year commitment to the fund they needed evidence of considerable financial strength from any borrowing community development corporations or for-profit developers. Given the political delicacy of selecting only the high financial capacity local CDC as approved borrowers, while excluding others, and the strong commitment of the ULC, Enterprise and the other fund investors agreed to lend solely to the ULC, which then partners with affordable developers. This arrangement gives the ULC the opportunity to pay off acquisition loans and lease properties for development or rehabilitation, holding the land in conservancy and ensuring long-term affordability, rather than selling it.

The Offices of Economic Development and Strategic Partnership at the City of Denver also worked to identify city-controlled sources of public funding that could be dedicated to the fund as a top loss investment and assisted in raising grants and PRI investments from foundations. Ultimately, $500,000 in Economic Development Business Incentives funds and $2 million originating from the City's Xcel Energy franchise fee revenues, to be used for energy efficiency projects for low-income households, were invested in the fund. The Fund closed in early 2010 with a total of $15 million in lending capacity. Enterprise and its partners intend to increase the size of the Fund by another $10 million and expand its reach to the full extent of the FasTracks regional system, but must first find public entities able to invest top loss grant funds beyond the City of Denver.

Issues and Challenges:

- **Operating challenge with lending for vacant land that is not yet developable**

The Denver TOD Fund is intended to not only preserve and develop projects along existing transit corridor, but also secure and hold opportunity sites in planned corridors that do not yet have transit. However, sites in planned corridors are not usually ready for development for several years, given the lack of transit, market issues and the general scarcity of permanent affordable financing. Unfortunately, vacant land generally has no revenue generating capacity and cannot make interest payments, however below market the rate is. While Enterprise and its investors have succeeded in providing a loan product with a term of as long as five years, the ULC must still make interest payments on those loans during that period. The second loan issued by the Fund is for a vacant property near existing rail and will serve as construction staging for an adjacent TOD project, thereby earning enough revenue to support interest payments. This type of arrangement holds less potential for sites on planned rail corridors, however. For now, the risk of acquisition loans for vacant land has been mitigated by limiting such loans to 1/4th of the overall fund, thereby ensuring that ULC is not overburdened by high-risk debt. Additional means to make more loans for vacant land acquisitions are being explored.

- **Limited permanent financing options restrict Fund's acquisition loan capacity**

The Fund's capacity is currently limited by the region's reliance on federal Low Income Housing Tax Credits for take-out financing. Because Denver can anticipate only a few local LIHTC projects per year, the Fund cannot have more than a couple of loans expiring annually. Enterprise Community Partners, Inc. and the Urban Land Conservancy are currently trying to expand the scope of the fund to be regional, which would encompass a greater number of LIHTC deals annually and therefore allow more acquisition loans, but must first locate sources of top loss public investment from outside of Denver, a major challenge.

- **Project developers not subject to Fund credit agreement**

The Fund's credit agreement is a lengthy document that lays out the relationship between the Fund investors and the ULC and details the terms of the loans that may be entered into. However, the actual developers of the properties for which the loans are issued are not a party to the agreement. The process for disposition of property by ULC was therefore not defined in the fund development process, thereby creating an additional measure of risk for the Fund, and the ULC.

Bay Area TOD Revolving Loan Fund, San Francisco Bay Nine-County Region, CA, ($40 – 60 million anticipated, currently under development)[5]

Purpose of Fund: To provide financing necessary to secure property near quality transit across the Bay Area region for the purpose of developing permanently affordable housing and ensuring convenient access to transit for households at all income levels. Affordability thresholds are under consideration and eligible projects will include mixed-use and mixed-income housing.

Investors & Fund Structure: As currently planned, the Bay Area TOD Revolving Loan Fund (Fund) will be a stand-alone fund managed by the Low Income Investment Fund (LIIF), with loans originated by LIIF and five other national and regional CDFIs. A $10 million investment from the Metropolitan Transportation Commission, the Bay Area metropolitan planning organization, will occupy the top loss risk position in the Fund. LIIF and its partners expect to raise between $5 million to $10 million in mission and program-related investments, and have applications in to the Ford Foundation, San Francisco Foundation and Living Cities. These funds will absorb the majority of second tier or mezzanine risk and, along with the MTC grant commitment, leverage an additional $25 million to $35 million in bank and CDFI capital assembled by the six originating CDFIs. LIIF has already received letters of interest for $15 million in senior position lending from three different banks. The Fund is intended to exist for 10 years and originate loans for the first five years.

Fund Management: LIIF will manage the fund and act as administrative agent for the six originating CDFIs. It is expected that the credit committee will have five to seven members with rotating seats that include the major investors.

Project Loans: Loan term goals include a seven-year term, 110 percent loan-to-value ratio, and an approximately 6 to 6.5 percent interest rate. LIIF has already received expressions of interest from 25 different prospective development projects, geographically distributed around the Bay, with the exception of North Bay communities.

History of Fund: In 2006, the Great Communities Collaborative (GCC) was formed with the purpose of making mixed-income, transit-oriented communities prevalent across the Bay Area by 2030. The GCC includes four regional sustainability and equity non-profits, three community foundations, a national transit advocacy non-profit, and several grass-roots organizations and receives staff support from the San Francisco Foundation. After initially focusing on planning, policy, advocacy and community outreach efforts, the GCC determined that these were not sufficient to meet their goal, and that the creation of new implementation tools was critical. The housing market and financial recession in 2008 posed the opportunity for acquiring and preserving property for permanent affordable housing while there was a lull in the market. In 2009, the GCC commissioned a feasibility study for an acquisition fund in the Bay Area which recommended the formation of a short-term structured loan fund modeled after the many existing funds pioneered by Enterprise and LIIF in other locations. The report also highlighted the critical need for public subsidy investment to occupy the top loss risk position.

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[5] Profile drawn from interview with Brian Prater, Low Income Investment Fund, 7/7/2010, “Request for Proposal for TOD Revolving Loan Fund Management andAdministration,” San Francisco Foundation on behalf of the Great Communities Collaborative, 2/24/2010, and “San Francisco Bay Area Property Acquisition Fund for Equitable TOD Feasibility Assessment Report,” Great Communities Collaborative, Center for Transit-Oriented Development, 6/9/2010.

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In early 2010, the GCC, assisted by the Center for TOD, began discussions with Metropolitan Transportation Commission staff around the possibility of a grant investment through MTC's Transportation for Livable Communities Program, which has funded transportation-related capital projects and planning efforts since the mid-1990s. The MTC board was strongly supportive and made a commitment of $10 million to the Fund.

With MTC's commitment, GCC and the San Francisco Foundation moved forward with a request for proposals from prospective fund managers. In July 2010, LIIF and a consortium of five other CDFIs were selected, with LIIF as manager and administrative agent. LIIF and the CDFI consortium are currently assembling foundation project and mission-related investments, as well as bank capital and project to close the fund by end of year.

Issues and Challenges:

- **Regional source of top loss investment**

A key challenge to forming a regional acquisition fund is the lack of viable public sources of grant investment that can occupy a top loss risk position. As the only state that sends a majority of its transportation funds to regional and local transportation authorities, California has a special advantage in regards to regional funding of TOD. MTC's 15-year history with the TLC program and innovation in transportation enhancements funding also prepared it for a significant investment in equitable TOD. Regions in other states, such as Denver, face considerable challenges in securing top-loss risk position investments at the regional level.

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