Equitable Transit-Oriented Development in the Wasatch Front

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I. Purpose

Enterprise Community Partners (ECP) and the Low Income Investment Fund (LIIF) announced in October 2011 a partnership to advance equitable transit-oriented development (TOD) nationwide. Through this partnership, Enterprise and LIIF collaborate to build healthy, walkable and affordable neighborhoods near quality public transit. Both organizations have a track record of aggregating capital from a variety of sources to create tailored financial tools for the purpose of delivering impactful community development outcomes. Enterprise and LIIF have implemented or assisted equitable transit-oriented development (TOD) programs in regions throughout the country, including the San Francisco Bay Area, Los Angeles, Denver, Twin Cities, Atlanta, Puget Sound, Washington DC, New York, and other markets.

ECP and LIIF were invited to Salt Lake City for a two-day visit to assess the feasibility of developing financing tools to incent equitable transit oriented development in the Wasatch Front Region. The impetus for the visit was the Wasatch Front Region’s receipt of a $5 million HUD Sustainable Communities Regional Planning Grant in 2010. The region's grant narrative describes a new and progressive relationship among local municipalities, seeking to transform what has historically been a “silo mentality” into a fluid partnership with one another to establish regional priorities for affordable housing in connection with the regional transit system and economy.

To aid the region in the development and implementation of their regional priorities, LIIF and Enterprise were asked to: 1) Share their general observations from the visit; 2) Discuss the need and feasibility for innovative financial tools; 3) Opine on possible sources for equitable TOD financing in the region; and 4) Comment on the regional readiness for implementation.

II. Regional Advantages

The regional plan, Wasatch Choice for 2040, is a product of strong collaboration and provides a visionary foundation for the overall success of the region. The fact that most if not all of the major municipalities have pledged their commitment to a common regional vision for public transit and smart growth principles is impressive, and was undoubtedly a significant factor in the region being awarded the largest Sustainable Communities Regional Planning Grant to date. Beyond the vision, LIIF and Enterprise identified several regional advantages during our visit:

- **Collaboration** – The strong collaboration among public, private, and quasi-governmental entities in this region was immediately apparent to us. Dozens of people came to the TOD sessions throughout the first day of our visit. The fact that multiple municipalities, state departments of economic development and transportation, the public transit agency, municipal planning organizations, redevelopment authorities, housing authorities, non-profit organizations, financial institutions, and private developers were all in the room and engaged in a discussion about equitable TOD is a testament to the groundwork that has been laid by the region’s leaders. This is a source of strength that many other regions hope for.
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- **Commitment to Building Public Transit** – The public transit system is massive in scale for a region this size, including the TRAX lines, FrontRunner commuter system and the planned streetcar expansions. We only spent two days in the region so it is difficult to comment on the overall placement of new lines and stations, but we were impressed by the commitment to public transit to address long-term regional growth.

- **Regional Pipeline of TOD projects** – The region has a large pipeline of potentially transformative TOD projects. We were both impressed by our tour and the scope and size of the projects that were being contemplated, both in Salt Lake City and the region. We would like to learn more about many of these projects, and have provided our observations on some of the sites that we saw during our tour later in this report. However, we offer one note of pause: the scale of the entire effort and the individual projects themselves are so large that you may want to consider a way to organize and succinctly present the “regional TOD pipeline.” Please see Recommendation #3 below.

- **Financial Resources** – A powerful advantage that the Wasatch Front has over many other regions is the strong interest of the private capital markets in financing equitable TOD projects. Several national financial institutions have an interest in supporting projects that deliver mixed income/affordable housing, community facilities such as health clinics, fresh food markets, child care centers, and other amenities that serve all members of the community, but particularly low-income households. From a purely economic point of view, the Salt Lake region has a tremendous opportunity to leverage tens of millions of dollars in lending and investments into its TOD projects if it ensures that the projects prioritize social equity and are not simply driven by market interests. In addition to debt and equity capital, there also may be an opportunity to access grant, Program Related Investments (PRIs) or other types of philanthropic capital to leverage the more traditional products. Please see Appendix A for a summary of available financial tools for equitable TOD.

### III. Regional Challenges

Although the region has a strong foundation in collaboration and planning, we think additional work remains before the region is ready to implement its plans at scale. More work needs to be done around identifying specific community needs as well as creating clear definitions of what TOD and social equity mean to stakeholders and the region. Our specific thoughts include:

- **Definition of Good, Equitable TOD** – During our group and individual discussions, we did not get a sense that there was agreement on what good, equitable TOD – or even just good TOD – looked like for the region. As we all know, different transit corridors and different sites within the corridors will be suitable for different types of development. However, we were not clear what principles were guiding decisions on how and why certain development choices were being made. Participants had a difficult time describing a coherent regional vision, and most replied that there were many visions and no agreement. We believe more work needs to be done by the region and its partners to further determine what equitable TOD success looks like.
• **Perceived Demand for TOD Developments** – We did not get a concrete sense of the demand for the types of mixed-use, high density developments envisioned. Our observation was that travel by automobiles is still fairly easy. We did not see much evidence of traffic congestion. Surface parking, even in central business districts, appeared abundant and inexpensive. For individuals fortunate enough to have the option to drive, there is little motivation for them to consider alternative modes of transportation or moving to more central/urban locations. This is likely to change over time if the regional population grows as predicted, but denser/mixed-use developments, no matter how attractive or green, are still dependent upon market demand.

• **Urban Design** – Another challenge unique to the region is the physical scale of the street grid. The typical 10-acre “Utah Block” presents obvious challenges in terms of creating the pedestrian and bicycle-friendly places that make TOD attractive, as walking even a few blocks can be challenging. The same holds true for the roadways, most of which seem very wide and difficult to cross. However, we note that Salt Lake City has recognized these issues and is taking steps to make key neighborhoods and corridors more pedestrian friendly.

• **Financing Barriers** – We heard from local developers and other partners that banks do not yet believe in the TOD concept in Utah, and therefore are reluctant to finance TOD development. This issue is not specific to Salt Lake City and comes up across the country. Banks generally are not first movers – they want to see evidence that there is market acceptance for TOD products before they are willing to commit debt or equity dollars at scale. This is why other regions have created innovative financing tools that serve to absorb risk through credit enhancement mechanisms. The credit enhancement provides an extra level of risk protection for private capital providers so that they can participate in TOD transactions and maintain an acceptable risk profile while the market for the TOD product is proven.

• **Social Equity** – The region’s Sustainable Communities grant application mentioned affordable housing and other social equity issues throughout the narrative. However, during our visit, these principles did not come through strongly. We do think social equity is a regional priority. By stating social equity as an objective, it does not mean that regional economic growth, driven by the markets, is not also a priority. Our view is that by connecting everyone – including low income households – to jobs in the regional economy, the region can maximize productivity and efficiency. Also, as we state above, by not focusing on social equity issues, we believe that the region would be leaving tens of millions of potential private lending and investment dollars on the table.

### IV. Site Specific Observations

The Salt Lake City region has a wealth of TODs being considered or planned in the urban core and throughout the valley. During our visit, we did not see all of the six catalytic sites mentioned in the HUD application, but we saw a nice selection of sites. We have picked a few sites to discuss, primarily based on the inclusion of equitable TOD uses, such as affordable housing, community
facilities like childcare centers or health clinics, fresh food markets, and other catalytic uses that could be valued and easily accessed by all residents of the neighborhood.

- **North Temple Corridor in SLC** – We had the opportunity to drive the North Temple corridor where the new light rail (TRAX) line is being constructed. The corridor extended from the airport to downtown, and contained a wide variety of uses such as housing, commercial, industrial, etc. The corridor also included some unusual elements, such as a KOA campground and the State Fair Park. Our initial observations are that while the corridor has substantial potential, it currently has no clear identity, and seems to be a collection of uses that developed during years of underutilization. There will be development pressures there, which could spur gentrification and displacement and will create a need to ensure that affordable housing is available. The plans for North Temple should integrate the transit development with the two neighboring residential communities, and be looked at holistically. Also, the State Fair Park and KOA should consider more intensive development opportunities at the front of their properties near the light rail, including office, housing, commercial, mixed use or mixed income. We think that there are significant place-making opportunities here, if approached in a concerted way;

- **Depot District Redevelopment Area** – This ambitious project could be one of the centerpieces for Salt Lake City’s TOD efforts for its place-making and economic development possibilities. Preserving the historic warehouse feel of the district while improving pedestrian walkways and adding restaurants and entertainment options makes a lot of sense. However, it was unclear to us if the “commuter village” approach was going to include a range of incomes or prioritize equitable uses;

- **Riverwalk Project in Ogden** – The 60-acre Ogden River Project is a mixed-income, mixed use project that is ready to begin developing in phases. There is a multifamily affordable housing component to the project, as well as market rate housing, neighborhood retail and a potential trolley loop connecting with the UTA station. This type of project is worth exploring more closely as a potential pilot site for equitable TOD financing tools, given its commitment to a mixed income approach, the planning and prioritization done to date, and the investment the City has made in improvements to the river, a central public amenity; and

- **South Salt Lake Central Pointe and Sugar House Streetcar Line** – The City of South Salt Lake appears committed to equitable TOD and has several potential equitable TOD projects, including affordable and mixed-income housing, community facilities and other amenities. There are a number of opportunities in the neighborhood along the new Sugar House streetcar line, though accessibility and safety issues will need to be addressed. The Central Pointe Redevelopment Area also has potential. We would recommend further conversations with South Salt Lake to determine the readiness of a potential pilot project. Several sources may be available for this, including conventional financing, community development tools, New Market Tax Credits (NMTCs) for community facilities, or affordable and mixed-income housing financing (See Appendix).
V. Recommendations/Next Steps

LIIF and Enterprise acknowledge the significant amount of progress that the region has already made in its collaborative work, and its TOD vision. We think there will be significant interest by leading financial institutions who work in the region to provide capital to further an equitable TOD agenda. We are less clear on the availability of sources of risk absorbing capital. For example, additional work would have to be done to determine the availability and amounts of PRI, MRI, public or other philanthropic capital that is available to help share the risk that financing such projects entails. Common sources for such types of capital have included private and community foundations, CDFIs such as LIIF and Enterprise, Metropolitan Planning Organizations (MPOs) and interested public sector agencies. Many of these organizations find the ability to leverage their funds with private capital as a significant advantage.

It is one thing to raise capital though, and another to deploy it quickly, effectively and for good purposes. The ability to deploy all sources of capital will be reliant on a concise and well organized program and plan of action. To reach the implementation stage, we recommend the following:

1. **Build on the regional visioning work already completed** – There has been a lot of collaboration and visioning in the region already, and this has created a great foundation on which to build. Before effective financing tools and resources can be gathered or created, the region needs to clearly articulate what its objectives are for its equitable TOD work. In our experiences around the country, we have found that many of the first grantees from HUD’s SCRPG program have advanced past establishing collaborations and into this stage. Some of our thoughts are:

   • **Clarity of Intent**: We think it is important to decide what you want out of your equitable TOD program before gathering/building financial resources. Some questions: What do your communities want and need? Have you asked them? Is more affordable rental housing needed? Are you worried that certain corridors/communities will lose existing affordable housing because of the possible gentrification that better transit access will provide? Is it about job creation and economic development? How are livability benefits being thought about? Is affordable child care an issue? Are there corridors that could benefit from better access to health care or to healthy foods? These are important questions that will dictate what financial resources can be leveraged into the region, and the sources of those potential resources.

   • **Possible Actions**: Hopefully, you can answer the above questions already. If not, there are probably local partners who can help. There are also some national organizations that specialize in helping regions analyze and implement equitable TOD strategies. The Center for Transit Oriented Development (CTOD), including Reconnecting America, the Center for Neighborhood Technology (CNT) and a consulting firm, Strategic Economics, has assisted regions across the country with this type of analysis. Other firms, such as Economic & Planning Solutions, have also done it. For examples of the work products that we are talking about, check out the [CTOD](#) or [Reconnecting America](#) websites. You will see innovative tools
these organizations pioneered to assess the development potential of transit systems (Performance Based TOD Typology Guidebook).

2. Capital Absorption Analysis – Potential financial partners want assurances that the funds that they commit will be deployed and used for equitable TOD purposes. The national philanthropic organization, Living Cities has sponsored a working paper entitled “The Capital Absorption Capacity of Places.” The paper presents a framework to help regions understand their ability to deploy capital to meet community development outcomes. We have found this paper quite helpful in analyzing the "functions" that need to be in place for regions to meet their goals. In the Salt Lake City setting, we think it is particularly relevant to assess both community investment "functions" and "actors." Community investment functions could include defining needs and priorities, building platforms for collaboration, identifying barriers, generating deals, and monitoring social impact. Specific questions could be: 1) What is the depth of developer capacity to undertake complex equitable TOD development?; 2) What civic organizations are available to play specific roles?; and 3) What is the capacity of local public sector agencies and/or Community Development Financial Institutions (CDFIs) to serve as stewards or intermediaries for community investment vehicles such as funds or other financial tools? These, and other, functions are critical to successful community development strategies. Each region can fulfill these functions with an array of actors (local, state or national), but we know the functions must be addressed, and will significantly impact the success of any equitable TOD financing initiative.

3. Implementation Plan for Financial Tools – As we have stated previously, if the above analysis has already occurred or the equitable TOD objectives are clear and capital absorption capacity is understood, you can determine what financial tools are the appropriate ones to help the region meet its vision. We recommend initiating a process to create an Implementation, or Business, Plan. The plan should build on previous collaboration, include partners across all sectors and result in a written document that outlines strategies and implementation steps. If done correctly, the process to create the plan should include financial and programmatic stakeholders and result in a healthy, pragmatic discussion of products and outcomes. Each region should design its plan, but some typical topics include:

- **Description of Effort's Objectives and Mission** – Is the goal to create more mixed income and affordable housing in certain corridors? Is it regional? Does it include a strategy to finance other community assets such as health clinics and childcare centers?

- **Identification of Key Partners and Roles** – This will build off the results from the capital absorption analysis of functions;

- **Demand Analysis** – Reaching out to key stakeholders, including public, private and nonprofit partners, to determine what types of products are needed and what features those products need to have to be useful;
• **Potential grant and capital raising strategies** – What are the potential sources of capital that we need, including private capital, PRIs or MRIs, NMTCs, equity like capital to absorb risk and/or grant capital to help cover costs;

• **Proposed financial products** – Is this a fund or a simply an alignment of existing resources to better promote equitable TOD? We had heard a need for mezzanine debt products, acquisition and predevelopment funds for affordable housing. Are there other products needed?

• **Regional TOD pipeline** – Creating of a master list of equitable TOD projects across the region, including basic information such as total development cost, number of units, square feet of commercial or retail space, square feet of community facility space, public subsidy required, projected start and end dates, and other basic information that could be sorted. This could serve as a great way to organize, plan and prioritize as a region;

• **Projected community development outcomes**; and

• **Program assessment and evaluation** – What assessment structures will you put in place to determine if you are successful?

The Wasatch Front Region holds tremendous potential to set a national example of how enhanced public transportation can create vibrancy, economic development, and a higher quality of life for everyone. This potential was evident in the thoughtful grant application that brought national attention through a $5 million Sustainable Communities Grant. The level of collaboration required to produce a document with a compelling affordable housing and community development focus is a great first step and has Enterprise and LIIF interested in learning more about the region.

Please review this document and share any comments, questions or clarifications with us. We congratulate you on the progress to date and wish you the best as you pursue your regional TOD priorities and objectives.
APPENDIX A – Capital Resources for Equitable TOD Development

The following tools have been and continue to be utilized throughout the country to incentivize the development of equitable TOD. Most of these resources are familiar to the public and private sectors in the Wasatch Front region but may not be utilized to the extent possible, particularly in TOD. This list is by no means exhaustive but serves as a high level overview of available tools:

EQUITY:
- **Low Income Housing Tax Credits (LIHTC):** The LIHTC program is an indirect subsidy program to incentivize private and non-profit organizations to develop affordable rental housing. In exchange for restricting some or all units in a development to households earning no more than 60% of Area Median Income, and in many cases less than 60% AMI, developers have the opportunity to receive an allocation federal tax credits, sell them to large investors, and receive cash equity in exchange.

- **New Markets Tax Credits (NMTC):** Similar to the LIHTC program, the NMTC program provides indirect subsidy through the sale of federal tax credits to incentivize development. NMTCs, however, are utilized to spur revitalization of low-income communities by investing in non-housing elements such as small businesses, charter schools, community centers, etc. The intent is to create jobs and materially improve the lives of residents living in low-income communities.

- **Economic Equity:** Well-established developers may have access to traditional sources of real estate equity that take risk but expect to a healthy return for it.

PUBLIC SECTOR:
- **Federal:** Utah and the Salt Lake Region have access to many federal grant dollars that can be utilized to enhance development of affordable housing and community assets. Communities throughout the country are becoming more creative in their utilization of long-standing grant programs such as HOME, CDBG, EPA, DOT as well as some new programs like Sustainable Communities grants to plan for and implement TODs with elements of social equity. In particular, utilization of federal transportation dollars such as Surface Transportation Program (STP) and Congestion Mitigation and Air Quality (CMAQ) for equitable TOD has become increasingly common. The MPOs in the region may consider whether and how they might contribute a portion of these funds for equitable TOD.

- **State:** Utah has a variety of state level funding resources for housing, homeless, small businesses, weatherization, etc. Consider if and how these resources might be prioritized or utilized differently to incent equitable TOD.

- **Local:** Local governments may also have resources they can contribute to equitable TOD projects. These may be dollars already specified for particular programs like affordable housing or other community facilities, or they may be general fund dollars that are flexed to
leverage additional investments in these types of assets. To the extent local priorities are aligned with state and regional priorities, these dollars can be deployed more efficiently.

PHILANTHROPY:
- **Grants:** Philanthropies such as private and community foundations providing grant dollars for low-income and underserved communities is common. However, many of these organizations may have never considered how directing some of their grant dollars toward TOD might directly align with their mission. It may take some education and case making, but it is not a stretch to say that providing housing and critical services in close proximity to public transit will directly benefit low-income individuals and families and is worth investing in.

- **Program Related Investments:** For the same reasons, some organizations may consider making PRIs for equitable TOD. PRIs were created as a way for foundations to make investments in alignment with their mission. Unlike grants, these investments are expected to be repaid, often with a modest rate of return. Thus, these types of investments can prove very appealing to many foundations. It may be that local foundations in the Wasatch region have the ability to make PRIs but haven’t because it is outside of their comfort zone. Consider educating them on how they might be able to provide a PRI for equitable TOD. More information on PRIs can be found here: [http://primakers.net/about/faq/](http://primakers.net/about/faq/).

- **Mission Related Investments:** Impact investors and other capital providers may consider PRI like investments at a larger scale but with an expectation of a higher return.

DEBT:
- **Senior Debt:** Banks and other financial institutions often are incentivized through the Community Reinvestment Act (CRA) and other regulations to provide financing for community development at more favorable rates than they otherwise might provide. In Utah in particular, this group of institutions is expanded to include Industrial Lending Companies. Meet with representatives from these organizations and inquire about what they are willing to invest in and at what terms.

- **Subordinate/Mezzanine Debt:** Often, there is a funding gap between what traditional lending institutions are willing to lend on a development and what the developer is willing/able to contribute in terms of equity. This gap can potentially be filled with additional loan dollars, provided that these loans are subordinate to senior debt in terms of both rights and repayment. This role has been played historically by states and/or municipalities who are supportive of the development as well as non-traditional lenders like Community Development Financial Institutions (CDFIs – see below), who are comfortable accepting additional risk.

- **Community Development Financial Institutions (CDFIs):** CDFIs are non-profit organizations, certified through the US Department of Treasury, who provide credit and financial resources to underserved communities. Because they are mission driven, CDFIs are often willing to
extend credit to organizations when traditional lenders may not. Alternatively, they may be willing to extend credit with terms that traditional lenders will not or provide additional technical assistance, which traditional lenders generally do not provide. LIIF is a national CDFI and Enterprise has one (Enterprise Community Loan Fund).

OTHER TOOLS:

- **Value Capture:** There is enough data nationally to know that good transit systems and associated development create significant value for the communities in which they are located. The easiest to measure is the increased value of real property in close proximity to transit, but there are other significant environmental, social, and economic benefits that come with transit. These benefits generally accrue to the public, so it is hard to quantify and therefore capture much of the value created. That said, communities throughout the country are increasingly utilizing tools such as tax-increment financing, special tax districts, joint developments, impact fees, etc. that attempt to monetize some of the benefits of transit-oriented development and utilize it to defray the additional upfront infrastructure costs that TOD often requires. For further explanation of value capture, review the CTOD’s guidebook: [http://www.reconnectingamerica.org/assets/Uploads/ctodvalcapture110508v2.pdf](http://www.reconnectingamerica.org/assets/Uploads/ctodvalcapture110508v2.pdf)

The resources listed above, as well as other tools, can often be utilized in tandem in a structured, streamlined approach to create financial products otherwise unavailable to affordable housing and community developers. These tools can be tailored to a specific community’s needs and can prove to be a very powerful tool, provided that the community in which they are used has a vision for how they should be used and supports the vision with regulatory and/or financial tools of its own.