

**Board Report**

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Agenda Number: 58.

**EXECUTIVE MANAGEMENT COMMITTEE
SEPTEMBER 17, 2015**

SUBJECT: METRO INVOLVEMENT IN AFFORDABLE HOUSING

ACTION: RECEIVE AND FILE

RECEIVE AND FILE status update on **Metro involvement in Affordable Housing and Small Business Loan Fund.**

DISCUSSION

In March of this year, the Metro Board of Directors approved a motion (Attachment A) directing staff to report back on several actions that support affordable housing creation and preservation around transit. Two of those actions were implemented through amendments to the Metro Joint Development (JD) Policy, authorized in July of this year. The status of the remaining items is addressed herein and include:

- Development of Memoranda of Understanding with local municipalities
- Creation of a residential TAP program for residents of affordable housing units in Metro joint developments
- Pursuit of a collaborative Transit Oriented Affordable Housing and Small Business Loan Fund.

Background/Nexus

As Metro transportation investments expand, the potential exists for land values to increase near transit, making it more difficult for low income residents and businesses to locate near Metro. If rising rents push small businesses farther from transit, patrons and employees of businesses will be less likely to take transit. A large portion of Metro ridership is made up of lower-income, transit dependent patrons. In keeping with federal and state guidance surrounding greenhouse gas emissions reductions strategies and in order to preserve and increase ridership, the Board directed that the following actions be taken.

- Amend the Metro Joint Development Policy to establish an affordable housing goal and to allow for land discounting for affordable housing developments.
- Develop Memoranda of Understanding with local municipalities
- Negotiate terms and conditions for Metro's participation in a collaborative Transit Oriented Affordable Housing and Small Business Loan Fund.
- Establish a residential TAP program for residents of affordable housing units in Metro joint developments

Amendments to Joint Development Policy

In the July 2015 meeting of the Metro Board of Directors, the Board authorized amendments to the Metro Joint Development Policy. The amendments make the following key policy changes:

- Establish a 35% portfolio-wide goal for affordable units as a proportion of all housing units in the joint development portfolio.
- Grant Metro the authority to discount its land at a rate proportionate to the percentage of affordable housing units included in the project
- Define affordable housing as covenant-controlled affordable housing for residents earning 60% of the area median income (AMI) or less
- Codify a robust community outreach process that collaborates with local jurisdictions to inform all joint developments
- Extend the Exclusive Negotiation Agreement (ENA) period to allow time for California Environmental Quality Act (CEQA) requirements to be met (per Save Tara court decision)

The updated policy is being concurrently reviewed by the Federal Transit Administration (FTA). Additional edits to the policy are being made to reflect input from the FTA. Upon receipt of official concurrence from the FTA, Metro staff will incorporate non-substantive FTA's revisions to the Joint Development Policy. Any substantive revisions will be brought back to the Board.

Memoranda of Understanding with Local Jurisdictions

Staff has prepared an initial draft of a Memorandum of Understanding (MOU) for negotiation with the City of Los Angeles. Staff has met with the City of Los Angeles to discuss the MOU and will continue to discuss the terms with the City. Upon agreement with the City of Los Angeles, staff will return to the Board requesting authority to execute the MOU. The basic parameters of the MOU are likely to be as follows:

Metro Responsibilities:

- Metro shall consider affordable housing on joint development sites within the City are feasible and logical
- Metro shall consider discounting land for the purpose of helping to finance affordable housing consistent with Board and FTA policy
- Metro shall collaborate with the City on Cap and Trade project applications
- Metro shall share data regarding affordable housing

City Responsibilities (proposed by Metro):

- City shall seek to prioritize Metro joint development affordable housing projects in their funding pipeline
- City shall seek to provide permitting fast tracking for Metro affordable housing projects when

possible

- City shall work to reduce parking requirements for projects near transit
- City shall work to prioritize affordable housing near transit in planning documents
- City shall encourage first last mile projects near affordable housing sites served by transit
- City shall share data regarding affordable housing

Metro staff has also had discussions with the Cities of Inglewood and Duarte and the County of Los Angeles regarding potential MOUs. Upon finalization of the MOU with the City of Los Angeles, staff will bring the MOU to the Board for approval. Staff will then proceed with discussions in the remaining jurisdictions in which joint development sites are located and work with those jurisdictions, using the City of Los Angeles MOU as a starting point to create similar MOUs tailored to the needs of each jurisdiction.

Affordable Housing and Small Business Loan Fund - "Transit Oriented Community Investment Fund"

The Board has authorized the use of up to \$10 million over five years for the creation of an affordable housing and small business loan fund. Staff proposes the fund be branded the "Transit Oriented Community Investment Fund." Because of the varying administrative realities of loan funds for affordable housing versus small business, two separate funds may be useful for the purposes of accounting, while keeping both under the same umbrella of the Transit-Oriented Community Investment Fund and coordinated throughout.

Staff has been collaborating with a consortium of affordable housing organizations, first in the research of the state of affordable housing near transit and funding opportunities and gaps that exist for equitable TOD, and then in the development of the design of a potential loan fund. The affordable housing community has prepared a proposal of how an affordable housing portion of the investment fund could be structured, levered and administered. Discussions continue to flesh out the proposal.

Staff has also met with several small business organizations and lenders to conceptualize a transit-oriented loan fund that would stabilize and incentivize small businesses near transit. These organizations have been asked to offer comments on a range of program alternatives. Following their review, staff will consult with county counsel and will return to the Board with options and seek further direction.

Group Rate TAP Program

The Board directed staff to create a "revenue-neutral" TAP group rate program for the occupants of affordable units in Metro joint development projects. Countywide Planning Staff has consulted with OMB to develop a methodology for estimating a pass price that would minimize the impact on the agency's fare revenue. The proposed calculation recognizes that affordable housing residents have lower income than the overall county population and are therefore more likely to be current transit riders, and that revenue neutrality requires that Metro receives at least the average systemwide fare per boarding.

Using this approach, the initial cost per pass for the group rate TAP program would be based on an estimated usage and systemwide fare per boarding, and the cost per pass in subsequent group rate agreements would be adjusted to reflect actual usage. Currently, the average usage for a monthly pass is 94 boardings per month. The systemwide fare per boarding is \$0.76 per boarding. A sample calculation of the initial cost per pass is shown below:

$$94 \text{ estimated boardings} \times \$0.76 \text{ fare per boarding} = \$71.44 \text{ per month per pass}$$

This represents a 29% discount from the \$100 monthly pass price.

Metro would market such a program to existing affordable housing Joint Development projects, and make it available to all future affordable housing projects developed on Metro property.

One issue with the program is that if affordable housing developers were required to purchase passes for residents, it would raise the operating expenses for each unit by the price of the pass - \$71 per month per unit at the proposed, revenue neutral price. This would ultimately need to come from another source of subsidy.

It should be noted that the new Affordable Housing Sustainable Communities (Cap and Trade) funding source for affordable housing awards points for projects that provide reduced cost transit passes to their residents. The suggested group rate TAP program would make LA County affordable housing projects significantly more competitive for this funding source. This is the one of very few housing funding sources at this time that prioritizes transit-oriented affordable housing for families as opposed to special-needs populations, which are currently the key population targeted by local, county and federal affordable housing programs.

NEXT STEPS

Staff will pursue these remaining initiatives and report back to the Board on progress and options.

ATTACHMENTS

Attachment A - March 2015 Motion 51.1

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Phillip A. Washington
Chief Executive Officer

51.1 **APPROVED REVISED MOTION by Directors Garcetti, Ridley-Thomas, Kuehl, Solis, Bonin and Dupont-Walker AS AMENDED by Directors DuBois and Knabe** that the CEO direct staff to report back to the Board with the following items:

- A. amendment to MTA's Joint Development Policy, establishing a goal that in the aggregate, affordable housing units represent 35% of all residential units developed on MTA-owned property;
- B. recommended criteria under which MTA would allow proportional discounts to the fair market value of MTA owned property for the purpose of contributing towards the cost of affordable housing;

FURTHERMORE, that the CEO direct staff to:

- C. develop a memorandum of understanding with interested local cities and the County of Los Angeles to promote co-investment along transit corridors, such as leveraging municipally-controlled affordable housing and small business dollars for MTA's Joint Development affordable housing sites;
- D. negotiate terms and conditions for the Board's consideration that reflect MTA's participation in the collaborative creation of a multi-partner Countywide Transit Oriented Affordable Housing and Business loan fund. Potential partners should include community development financing institutions and community-based development organizations whose primary goal is to develop, invest in or preserve affordable homes or businesses within ½ mile of MTA rail stations, bus rapid transit or rapid bus stops. Through the loan fund, developers would be able to access flexible, affordable capital to purchase or improve available property near transit lines for the development or preservation of affordable housing and small business, creating and retaining community job opportunities for MTA's joint development. and
- E. report back to the Board on the following:
 - 1. criteria for eligible joint development projects, including neighborhood serving businesses to be funded by the loan fund;

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2. administration of the fund;
 3. loan program structure;
 4. potential sources of funds including, but not limited to partners/collaborators.
- F. report back to the Board during the FY2015-16 Budget regarding the feasibility to budget \$2 million annually for 5 years, up to \$10 million to establish the revolving loan fund; and from sources, including but not limited to, non-operations/maintenance eligible funding sources, such as cap and trade affordable housing funds and with a plan to geographically disperse the funds equitably so that sites within each subregion are eligible for a share of the funds
- G. work with a diverse stakeholder the affordable housing community to establish a revenue neutral TAP purchase program that provides passes to current and future occupants of MTA joint developments.
- H. reference MTA’s Sustainability Planning Policy to insure a compatible and integrated approach to joint development and any potential loan fund
- I. to the extent possible, provide an estimate or projection of the “proportional discount” to the fair market value of MTA-owned properties listed in Attachment C of the report using the “typical subsidy” level of \$80,000 to \$150,000 per unit.

MA	PK	JB	SK	MB	JF	EG	MRT	DD	JDW	HS	DK	AN
ABS	Y	A	Y	A	Y	Y	Y	Y	Y	Y	Y	Y