SUBJECT: RESPONSE TO REQUEST FOR INFORMATION REGARDING AFFORDABLE HOUSING AND METRO INVOLVEMENT

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file the requested information regarding affordable housing and Metro involvement.

ISSUE

In November 2014, the Metro Board of Directors approved a motion (Attachment A with amendments) to "consider policy and program implementation that ensures MTA’s success in affordable housing production continues." The motion outlined a number of topics on which staff was directed to report back, the analysis of which is contained herein. In addition, three amendments were made to the motion, which are considered in this report as well. Metro staff defines affordable housing in this context to be housing that is covenant-controlled, provided on an income-restricted basis to qualifying tenants at rents below the current private market, and subsidized by public or non-profit funding sources.

DISCUSSION

1. Inventory

- Completed Joint Development Sites: Metro has completed nine joint development projects that contain housing over the past decade. A detailed inventory of Metro Joint Development projects to date is attached (Attachment C). Altogether, these Joint Development projects have created 4,934,277 units, 682 (33%) of which are affordable units.
- Potential Future Affordable Housing Development Opportunities: Staff has compiled a preliminary list of development sites, Attachment D, that could potentially host transit-oriented affordable housing, as well as a list of Metro-owned sites that have been explored, but are deemed infeasible for affordable

1 Numbers exclude Del Mar and Sierra Madre sites which were sold to private parties.
housing development at this time due to size, location or other constraints. The inventory excludes properties owned by Caltrans but managed by Metro, as Metro has no authority to develop these sites at this time. The Metro owned sites are ranked on a scale of 1-5, 5 being the most desirable and logical development sites. There are 20 total potential sites, 10 of which received a score of 4 or 5. Additional analysis is necessary to determine the presence of barriers to development, contextual impacts that may suggest housing is an inappropriate use, etc. A map of these locations is found included in Attachment E.

2. Potential Memorandum of Understanding with Municipalities

Staff has considered that given the potential for Metro to contribute to affordable housing near transit—traditionally a responsibility of local municipalities—that these municipalities should be prepared to contribute resources or other commitments in cooperation with Metro to meet this mutually beneficial goal. Staff invited several cities where Metro owns potential development sites to discuss the inclusion of potential topics to a memorandum of understanding (MOU). The cities of Duarte, Inglewood, Los Angeles and West Hollywood chose to attend. The topics discussed included:

- Prioritization of Metro Joint Development projects in City housing pipelines.
- Collaboration with Metro on applications for Cap and Trade funding
- Entitlement and permit fast tracking Metro Joint Development projects
- Consideration of using city-owned properties for affordable housing
- Zoning incentives for affordable housing (such as density bonuses or parking reductions) around transit
- Collaboration on preservation programs as well as production
- Co-investment by the local community.
- Reduction of parking requirement in exchange for transit passes for residents

Each of the communities expressed an interest in continuing discussions that could lead to MOU’s to facilitate affordable housing on Metro owned property. Given the cities represented a good cross-section of community sizes and types in the County, it was clear that MOU’s will need to be uniquely developed in each community. For example, the City of West Hollywood achieves affordable housing development through inclusionary housing regulations. The City of Los Angeles utilizes its limited Housing Trust Funds, has substantial land inventory for affordable housing, controls an allocation of housing tax credits and has begun to develop land use regulations that create incentives for affordable housing production. The City of Duarte has limited housing fund resources and a more suburban housing density form. The City of Inglewood has limited funds, and seeks to develop a broad mix of housing types.
Based on these discussions and additional research performed by staff, an MOU between Metro and a local jurisdiction may have the following components:

- Commitment by Metro to designate and reserve a particular Metro Joint Development site for affordable housing (include mixed income housing) for a designated period of time.
- Commitment by the municipality to take actions necessary to remove land use regulatory roadblocks and prioritize and accelerate the project approvals necessary for such a project to move forward.
- Within any competitive housing funding program operated and managed by the local community, to establish a priority for transit oriented sites.
- To the extent Metro accepts a monetary return on its property less than a fair market monetary return, a commitment from the local community to match the value of the Metro land discount contribution with direct housing cost cash subsidy or indirect subsidy through fee waivers, required infrastructure improvements, or other contributions.

Additionally, Metro may strategize on how housing investments could be leveraged to encourage mobility enhancements by local jurisdictions.

3. Establishing a Portfolio-wide Goal for Affordable Housing Production

Staff has considered amending the Joint Development policy to include a 30% portfolio-wide goal for units of affordable housing in Joint Development projects. Of Metro’s Joint Development housing units created to date on Metro owned land, 33% have been affordable units (detailed analysis is included in Attachment C). A portfolio-wide goal rather than a requirement set on all projects provides:

- Flexibility in housing products
- Ability to respond to market conditions
- Ability to avoid locations where the subsidy requirement is so great as to make the financing of affordable housing extremely difficult

A 30% portfolio goal would allow the development of both market rate housing and affordable units in the most cost effective manner and consistent with local community goals. Accountability would be maintained by reporting the current and pipeline status of the target each time a property is brought to the Board for approval of an ENA.

4. Proportional Discounting of the Value of Joint Development Land

Currently, the Joint Development Policies and Procedures establish a goal to “generate value to LACMTA based on a fair market return on public investment.” (Section II.B.4).

The Joint Development Policies and Procedures also include a statement that “Projects must demonstrate, at a minimum, fair market value to LACMTA.” (Section III.B.5.) Discounting of land would therefore require amending the Joint Development Policies and Procedures.
Federal guidance has evolved over time on the issue of the appropriate standard for Metro’s return on private use of land acquired with Federal sources. Current guidance states that Joint Development “revenue criterion is satisfied by providing a fair share of revenue for public transportation that will be used for public transportation purposes.” 2 To the extent the compensation for the property is less than the original federal acquisition cost, additional review and approval by FTA will be required.

County Counsel has advised that under state law, in order for transfers of public assets or funds to private or other public entities not to be a gift of public funds, the transfer must be for adequate consideration. Such consideration can include accomplishing or furthering the particular public purpose of the transferring governmental entity. Thus Metro can accept less money than the appraised fair market value for use of its real property if other consideration in form that promotes Metro’s transportation agency purposes or obligations is required to assure that the overall consideration is adequate. The Board, with factual support, may find a nexus between the use of Metro land for affordable housing and a transportation purpose. Staff would suggest that in addition to a nexus, the actual amount of the discount should be demonstrated to be no more than that necessary to achieve the development desired.

One principal argument for the nexus is as follows:

- Approximately 80% of Metro’s riders are from households earning less than $50,000 annually. 3

- Studies have shown that persons of modest income living near transit are more likely to use public transit and use it more frequently than persons of higher income living near transit. 4

- As the Metro Rail and Metro Rapid systems have grown, housing located proximate to transit lines has become increasingly desirable, which has likely been one of the factors of increased housing costs in certain neighborhoods served by transit.

- At the same time, local, federal and state resources devoted to increasing the supply of affordable housing has been substantially reduced, thereby reducing the rate by which the inventory of affordable housing is being produced.

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3 Metro On-board Customer Satisfaction Survey March 2014
• Should these conditions continue, transit dependent persons will find transit
adjacent housing increasingly expensive and may be forced to locate further
away from transit, thus reducing their use of the transit system, reducing
ridership in the system and increasing dependency on the automobile.

The Board Motion suggested an approach to discounting land that was proportional
and a contributor to the creation of affordable housing near transit. Staff agrees that
a proportional approach is indicated for several reasons:

• Metro's Joint Development program generates approximately $3,000,000 in
operating revenues to Metro annually, an amount which is growing as
additional projects are moved forward. While not a major source of revenues
to Metro, these funds are strategically important as they are locally generated
and as such their use is extremely flexible. These funds are currently used for
bus and rail operations.

• Limiting the monetary discount to a proportional discount equal to the
percentage of the project that is devoted to affordable units provides that
Metro will continue to receive ground rent income for its other purposes.

• Combining this monetary discount with the suggested local contribution can
represent a meaningful contribution towards the funding of at least the land
portion of the project.

• Limiting the monetary discount proportionally (not to exceed 30% of the fair
market value of the property and not to exceed the value of the transit benefit)
preserves some income generation for Metro and recognizes that while Metro
can play a role in housing creation, if it serves a Metro purpose or obligation,
the primary responsibility should remain with local, state and federal agencies
as Metro concentrates on mobility.

5. Transit Oriented Affordable Housing Loan Fund

Staff brought together key experts in the local city, county and Community
Development Funding Institutions (CDFIs) and the affordable housing finance
community for input as to how to structure a fund that would best address areas of
unmet need. They prepared a memo (Attachment F) which summarizes key
elements of a pooled loan structure they recommend.

The fund would be targeted at:

• Jump Starting Developments – entitlements funding for tax credit projects

• Preservation of naturally occurring affordable housing

• Preservation of existing housing with income restrictions scheduled to expire in
the near term
• Early Start Developments – low per-unit subsidy

• Mixed Income / Mixed Use projects – some affordable housing with deep subsides coupled with market rate housing not requiring subsidy

A key feature of the fund outline prepared by potential housing funders (Attachment F) is that the fund should be administered and allocated based on a set of criteria pre-approved by the funders, not on individual project approval by the governing boards of the funders, including Metro. Individual project approval would slow the approval process so much that it may render the fund ineffective for closing financing gaps. Preliminary guidance by County Counsel suggests that the Board could establish a set of criteria which the potential projects would need to meet, and could delegate individual approvals of projects to staff. Delegation to staff would mitigate this concern. Further analysis and discussion is necessary with County Counsel and potential funding partners on this issue if the Board desires to move forward with consideration of participation in such a fund.

Should the Board choose to contribute to such a fund, there are a limited number of funding sources that would be eligible. Most of Metro’s funding sources are tied very specifically to particular expenditures. Staff has identified funding sources that could legally be used to finance such a fund.

Staff review with the Office of Management and Budget (OMB) and Capital Planning suggests that the only eligible source of direct funding is the General Fund money which is made up of revenues from Leasing (approximately $13,000,000 – 18,000,000 annually), Advertising (approximately $21,000,000 annually) and Farebox receipts. These funds are currently used for bus and rail operations. This portion of operations funding could be backfilled with money from other eligible funding sources. In that scenario, programs currently funded by those other funding sources would be impacted.

For example, certain funding sources that currently cover the Call for Projects could be reprogramed for operations expenses (not all of the Call funding sources are eligible for operations), which would free up some General Fund money for a deposit into a Housing Fund. This would impact funding levels for a future Call. If the Board has an interest in pursuing a housing fund, staff will identify a potential funding approach and a reallocation of funds.

6. TAP Group Rate Program for Affordable Housing Joint Developments

The Board directed that staff consider development of a group purchase program for developers of affordable housing projects on Metro-owned land modeled after the current employer annual pass program, “B-TAP.” Under the B-TAP program, previous Board direction was that the program should be revenue neutral. That is achieved by requiring businesses to purchase annual TAP card passes for all eligible employees at a group rate. The group rate is based on a formula using
average LA County transit ridership rates, so that Metro can maintain revenue neutrality and increase ridership.

Typically, lower income individuals are more likely to use public transit and thus are already paying for their fares at established rates including applicable discounts. To maintain revenue neutrality, the residential group rate discount offered would need to be relatively modest. Any such discount would be in lieu of other reduced fare programs, not added to them.

Options for the Board to consider would include the following:

- Create a "revenue neutral" residential program which would likely result in a smaller discount than the BTAP employer annual pass program.

- Create a program that gives the same discount that was given to the MacArthur Park Pilot project (77%), the only residential discount that has been made to date. This discount was based on the employer group rate program, B-TAP, without consideration of the greater propensity for lower income residents to use public transit more often. Therefore, the Pilot program would not meet the revenue neutrality guideline.

- Select a discount percentage that falls somewhere in-between complete revenue neutrality and the one Pilot project precedent, that allows some advantage of the program to the tenants without straying as far from the revenue neutrality principle.

- Require that the developer pay for the TAP cards for any unit that desires a pass in the residential development. This would likely add $276 - $1,200 per year per pass to the operating costs of the development. Such increased operating expenses to the affordable housing project would increase the subsidy requirement. In order to get the group rate, a minimum of one pass per unit should be required.

It should be noted that Metro currently offers several discount programs: for seniors, disabled, students, and lower income riders. Those discounts are as follows:

- Senior/Disabled 80%
- Student K-12 76%
- College Student/Vocational 57%
- Rider Relief $10 off monthly. The Rider Relief program provides a $10 per month subsidy to transit patrons with household incomes below $28,550-$47,300 (depending on household size). It can be applied to a monthly pass, weekly pass, or series of One-ride passes.

Based upon Board direction as to the applicability of the revenue neutral guidance and whether the program would be made available to residents at current Affordable
Housing projects on Metro owned land or only future Metro joint development sites, staff can design a residential program for development on Metro-owned property and return to the Board for its consideration.

7. **Options for Pursuing Cap & Trade Funding**

The California State Assembly Bill 32 Cap and Trade system has now been partially implemented, and funds will become available early this year for both housing and transit projects. (The schedule has been delayed by a few months throughout the outreach process, and the availability of funds may be delayed as well.)

As the funding guidelines are currently written, Metro is identified as a potential lead applicant, and would therefore be able to apply for funding for Joint Development projects that meet the housing and mobility objectives of the Cap and Trade funding guidelines. It may be advantageous for Metro to discuss partnership opportunities with local jurisdictions in order to make applications more competitive. It may be valuable for Metro to couple Joint Development projects with First / Last Mile improvements to increase competitiveness by meeting multiple policy objectives.

For the first round of funding, Metro is discussion the potential of applying for funds for a proposed Joint Development project. Additional conversations will need to take place to advance partnership opportunities.

Cap and Trade partnerships provide an opportunity for coupling housing investments with mobility enhancements that require local partnerships.

Metro Active Transportation and Sustainability Staff, together with Government relations continue to be active participants in the State’s development of the Cap and Trade guidelines.

**NEXT STEPS**

The board may select one or more of these topics for direction and advise staff how to proceed.

**ATTACHMENTS**

A. Motion 60 with Amendments  
B. Joint Development Policies and Procedures  
C. Inventory of completed and in progress JD sites that include housing  
D. Inventory of potential Joint Development Sites  
E. Map showing locations of completed and potential Joint Development sites.  
F. Letter proposing outline of local Transit Oriented Affordable Housing Fund

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Arthur T. Leahy
Chief Executive Officer
Executive Management Committee Meeting

November 6, 2014

Item 60: Public Transportation, Affordable Housing, & Environment

Since 2009, the Los Angeles County Metropolitan Transportation Agency (MTA) has made significant contributions toward reducing air pollution through investments in compressed natural gas (CNG) buses, new and expanded transit lines, additional bicycling programs, and rideshare projects. However, to achieve 25 percent reduction in Greenhouse Gas emissions (GHG) by 2020—following the goal set forth by the U.S. Environmental Protection Agency (EPA)—Los Angeles County needs to do more.

The integration of transportation and housing is a key part of Federal and State strategies for reducing auto-related GHG emissions. Ensuring that households of all income levels, especially low-income households who use transit most, are able to live near transit is crucial to that effort.

Additionally, recent Federal Transit Administration (FTA) guidance on New Starts and Small Starts applications includes scoring criteria for affordable housing in transit corridors.

MTA has been a national leader among major transportation agencies in working with local jurisdictions and affordable housing developers in the production of affordable housing through MTA’s Joint Development Program.

To date, nearly 550 units, or 25% of all units, developed through MTA’s Joint Development Program are affordable units.

Last year, MTA joined with the California Community Foundation and the California Endowment to study:

A. The status of affordable housing financing resources in Los Angeles County;
B. The role that other major transit agencies nationwide have played in affordable housing support;
C. The options available to MTA to continue its successful inclusion of affordable units in MTA Joint Development Projects; and,
D. What can MTA and others do to support and protect affordable housing near transit throughout the County.

CONTINUED
While MTA cannot shoulder the burden of affordable housing creation alone, it can work in partnership with local communities to protect and create affordable housing near transit in order to preserve ridership and the associated greenhouse gas benefits.

It is now time to consider policy and program implementation that ensures MTA's success in affordable housing production continues.

WE THEREFORE MOVE that the CEO report back to the Board at the February 2015 meeting with a preliminary assessment of the following:

1. An inventory of current MTA Joint Development sites and potential future affordable housing joint development opportunities resulting from the Gold Line and Expo Extensions and the Crenshaw/LAX, Regional Connector, and Purple Line Extension Projects.

2. The efficacy of developing a memorandum of understanding with local cities and the County of Los Angeles to promote co-investment along transit corridors, such as leveraging municipally-controlled affordable housing dollars for MTA’s Joint Development affordable housing sites.

3. Establishing a goal within the MTA’s Joint Development Policy that, in the aggregate, affordable housing units represent 30% of all residential units developed on MTA-owned property.

4. Amending the Joint Development policy to allow proportional discounts to the fair market value of MTA owned property for the purpose of contributing towards the cost of affordable housing development.

5. Participating in the collaborative creation of a multi-partner Countywide Transit Oriented Affordable Housing (TOAH) loan fund, potentially in collaboration with local Community Development Financing Institutions, whose primary goal is to develop or preserve affordable housing within a ½ mile of a MTA Rail station, Bus Rapid Transit or Rapid Bus stop. 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.

6. Establishing a TAP purchase program that provides passes to occupants of MTA joint developments. This purchase program could be modeled on MTA’s Business TAP program, making passes available for purchase in whole or shared by entities including but not limited to occupants, property owners, and property managers.

###
Friendly Amendment

- It is imperative that this agency partner with local jurisdictions to take advantage of the current round of Affordable Housing and Sustainable Communities Program Funding. The strategic Growth Council expected timeline for the release of this funding is January:

- Therefore, I think it would make sense for the MTA and collaborating jurisdictions to move forward and try and capture some of the first round of funding.

  Instruct the CEO to pursue any appropriate opportunities to collaborate with local jurisdiction on pursuing Affordable Housing in advance of returning with this assessment.
November 2014 Board Meeting

KNABE AMENDMENT TO ITEM 60: To provide cost estimates for C through F.
November 2014 Board Meeting

FASANA AMENDMENT TO ITEM 60: As part of the Joint Development TAP Purchase Program, imbed the cost of TAP cards into the cost of affordable housing.
ATTACHMENT B

Los Angeles County Metropolitan Transportation Authority

JOINT DEVELOPMENT POLICIES AND PROCEDURES
Revised October, 2009

I. PURPOSE

Joint development is a real property asset development and management program designed to secure the most appropriate private and/or public sector development on properties owned by the Los Angeles County Metropolitan Transportation Authority ("LACMTA"). Joint Development also includes coordination with local jurisdictions in station area land use planning in the interest of establishing development patterns that enhance transit use.

This Joint Development Policies and Procedures document updates the Joint Development Policies and Procedures adopted by the LACMTA Board of Directors ("Board") in May 2005.

II. GOALS

A. With respect to overall planning, LACMTA’s Joint Development Program seeks to:

1. Encourage comprehensive planning and development around station sites and along transit corridors.
2. Reduce auto use and congestion through encouragement of transit-linked development.

B. With respect to specific sites, LACMTA’s Joint Development Program seeks developments that include a mix of the following goals:

1. Promote and enhance transit ridership.
2. Enhance and protect the transportation corridor and its environs.
3. Enhance the land use and economic development goals of surrounding communities and conform to local and regional development plans.
4. Generate value to LACMTA based on a fair market return on public investment.

III. POLICIES

A. Transportation and Land Use Coordination Policies:

   To encourage coordinated transportation and land use decisions, LACMTA shall:

1. Consult and work cooperatively with local jurisdictions, redevelopment agencies, developers, and other public and private sector entities to promote land use policies and plans which encourage intensive, high quality development at stations and surrounding properties that are located in regional/community activity centers.
2. In consultation with local jurisdictions and with community input, prepare development guidelines specific to each joint development site that articulate the intensity and type of land uses that LACMTA desires for that site as well as any desired transit and urban design features. Obtain Board approval of the development guidelines for each site.
3. Encourage transit compatible land use plans that enhance LACMTA’s multi-modal transit, regional mobility, ridership and revenue goals.

4. Consider joint development opportunities in the acquisition of property, location of new station sites, and construction of station facilities.

5. In the initial planning of a transit corridor project (e.g., during the environmental and preliminary engineering phases) LACMTA will conduct site analysis, include a preliminary layout of each passenger station site, develop conceptual urban design strategies integrating station sites with adjacent communities, and evaluate proposed station sites for their joint development potential.

6. Actively encourage and allow surrounding property owners/developers, at their expense, to construct direct connections to stations from their properties/buildings and require connector fees or equivalent consideration for such connections based on the proportional benefit to any such property/building.

B. Development Policies:

LACMTA shall consider joint development projects based on the following criteria:

1. LACMTA shall retain authority over its transit facilities and services.

2. Projects shall be consistent with development guidelines to be established by LACMTA for individual joint development sites. (Refer to Item #2 above.)

3. Projects shall not negatively impact present or future public transportation facilities.

4. Projects shall be consistent with regional and local community policies and plans.

5. Projects must demonstrate, at a minimum, fair market value to LACMTA.

6. Selection between projects will be based on those which meet the above criteria and additionally demonstrate:
   a. The greatest potential to increase transit ridership and enhance the transit system environment.
   b. The greatest economic development potential to the community consistent with adopted land use plans.
   c. Responsiveness to community needs for housing, employment, services, or other facilities.

7. Projects are encouraged which create a long-term source of revenue to LACMTA and allow LACMTA to participate in the increase in value of its real estate assets over time. This will generally take the form of a long-term lease. Under extraordinary circumstances, LACMTA may consider sale of property if it is determined to be in LACMTA’s best interest.

8. Projects are encouraged which do not require commitment of LACMTA financial resources, minimize any investment risk, and maximize asset security for LACMTA.

9. Projects are encouraged which obtain investment capital from other public agencies, or in-lieu contributions, where needed, to create greater economic benefit to LACMTA-sponsored joint development projects.

10. Where appropriate, projects are encouraged which provide for increased station access using alternative modes. Where appropriate and after consideration of possible alternative modes of access, projects are encouraged which provide new or additional park-and-ride facilities (except at Downtown Los Angeles stations).

11. Consistent with LACMTA procurement policy, encourage involvement of disadvantaged, minority and women-owned business enterprises.

12. Projects shall take into account LACMTA’s Public Restroom Policy in effect at the time.
13. Projects with a residential component are encouraged to provide a range of housing types to meet the needs of a diversity of household income, sizes, and ages particularly if such diversity of housing is not currently provided within walking distance of the transit system.

IV. JOINT DEVELOPMENT IMPLEMENTATION PROCEDURES

A. Project Proposals Initiation/Solicitation:

LACMTA will periodically conduct market feasibility studies for LACMTA-owned properties at transit stations. LACMTA will also consult with local jurisdictions regarding local land use development efforts. These market analyses and consultations with local jurisdictions shall provide the basis for establishing project priorities and project implementation strategies to ensure maximum attainment of LACMTA’s joint development goals.

Based on the consultation with the local jurisdiction and with community input, LACMTA will prepare development guidelines specific for each joint development site that articulate the intensity and type of land uses that LACMTA desires for that site as well as any desired transit and urban design features. Staff will forward proposed development guidelines for each site to the Board for approval, which shall include information regarding necessary California Environmental Quality Act ("CEQA") compliance procedures, National Environmental Protection Act ("NEPA") compliance procedures, Federal Transit Authority approval requirements, California Department of Transportation approval requirements and the presence of LACMTA Financing or tax-exempt bonds on the Property.

LACMTA will be open and competitive in marketing its properties.

LACMTA will solicit proposals for joint development of its properties through a Request for Proposal or other forms of competitive solicitation as appropriate except that an unsolicited proposal may be recommended in limited cases, such as when the site is small or constrained by location or access. If solicited by LACMTA, the standard Request for Proposal ("RFP") procedure as practiced by the Procurement Department following Procurement Policies and Procedures shall be used as a general guideline for determining the appropriate process for solicitation.

B. Proposal Evaluation:

1. Solicited Proposals:

At LACMTA’s discretion, staff can initiate an RFP process to solicit development proposals. In soliciting joint development proposals, LACMTA shall provide all available relevant site information including the Board adopted design guidelines for the site and encourage developers to seek information or consult with local jurisdictions regarding current and planned land uses in the project area.

In evaluating proposals solicited through an RFP process, staff will use LACMTA’s Procurement Policies and Procedures as a general guideline for determining the appropriate process. Staff will utilize an evaluation panel generally consisting of key...
personnel, joint development and urban design consultants, academic and legal professionals, and local jurisdiction technical staff, where appropriate.

Additionally, an urban design panel may be used to evaluate projects in an advisory capacity to the evaluation panel. The panel shall evaluate joint development proposals and advise the LACMTA Chief Executive Officer ("CEO") on a developer to be recommended to the Board. The CEO may recommend a developer to the Board or defer joint development if none of the proposals maximize joint development objectives.

2. Unsolicited Proposals:

The CEO shall evaluate and recommend unsolicited proposals only in limited cases such as when the site is small or constrained by location or access. In the event that LACMTA receives an unsolicited proposal, staff will ensure that at a minimum, the unsolicited proposal contains sufficient information to allow the adequate evaluation of the proposal in a manner consistent with solicited proposals. The CEO shall evaluate whether the unsolicited proposal meets the exceptions for non-competitive solicitation and is in the best interest of LACMTA to accept for evaluation. The CEO will evaluate the unsolicited proposal and, if the proposal maximizes joint development objectives, make a recommendation to the Board of Directors to enter into a written agreement reflecting the parties' intent to work toward joint development as presented to the Board.

C. Exclusive Negotiations Agreement: Before the CEO recommends the developer's proposal to the LACMTA Board, developer shall complete and execute an Exclusive Negotiation Agreement ("ENA") with terms and conditions regarding general planning and development goals agreed to by the proposed developer. Upon approval of a recommended developer and authorization by the LACMTA Board, the CEO shall enter into the ENA with the developer.

1. Developer Responsibilities under the ENA:

   a. In consideration for entering into the ENA, developer shall provide LACMTA a non-refundable fee ("Fee") in an amount determined by the CEO but in no event less than twenty-five thousand dollars ($25,000) or such other consideration as determined by the CEO.

   b. In addition to the fee, developer shall also provide LACMTA with a good faith deposit ("Deposit") in an initial amount determined by the CEO to pay LACMTA's actual costs to negotiate the documents to implement the proposal and any LACMTA in-house and third party costs incurred to evaluate the Proposal.

2. LACMTA Responsibilities under the ENA: During the Negotiation Period and provided that Developer is not in default of its obligations under the ENA, Metro shall negotiate exclusively and in good faith with Developer with respect to a Joint Development Agreement ("JDA") and Ground Lease to be entered into between
LACMTA and Developer, and shall not solicit or entertain offers or proposals from other parties concerning the Site.

**Term of the ENA:** The ENA term shall be determined by the CEO; provided, however, such term, including any extensions thereto as determined by the CEO, shall not exceed 18 months. In considering an extension, the CEO shall determine whether substantial progress have been made towards fulfillment of the requirements of the ENA in considering an extension and may require payment of additional Fee and/or Deposit amounts.

**D. Development Agreement:** Upon satisfactory fulfillment of all the development requirements in the ENA, LACMTA may enter into a JDA for the implementation of a Project. The JDA shall describe the rights and responsibilities of both parties.

**E. Ground Lease and Other Miscellaneous Documents:** Upon satisfactory fulfillment of all the closing conditions required in the JDA, LACMTA shall enter into a Ground Lease for the lease of the site. The Ground Lease shall describe the rights and responsibilities of both parties with respect to the site. The LACMTA CEO may also enter into such other documents and agreements necessary to implement and administer the Project as described in the JDA and Ground Lease.

**F. Environmental Compliance:** LACMTA shall not approve or be committed to a Project until the LACMTA Board as a responsible agency under CEQA and/or NEPA considers and analyzes the environmental impacts of the Project.

**G. Statutory Basis:** LACMTA’s joint development function acquired a statutory basis through one of its predecessor agencies, the Southern California Rapid Transit District. Under California Public Utilities Code, Section 30600: “The district may take by grant, purchase, gift, devise, or lease, or by condemnation, or otherwise acquire, and hold and enjoy, real and personal property of every kind within or without the district necessary or incidental to the full or convenient exercise of its powers. That property includes, but is not limited to, property necessary for, incidental to, or convenient for joint development and property physically or functionally related to rapid transit service or facilities. The Board may lease, sell, jointly develop, or otherwise dispose of any real or personal property within or without the district when, in its judgment, it is for the best interests of the district to do so.”
## COMPLETED / IN PROGRESS JOINT DEVELOPMENT PROJECTS THAT INCLUDE HOUSING

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<td>Hollywood/Vine Condominiums</td>
<td></td>
<td></td>
<td>143</td>
<td>143</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Wilshire/Western</td>
<td>-</td>
<td>-</td>
<td>186</td>
<td>186</td>
<td>0%</td>
<td>2009</td>
</tr>
<tr>
<td>Westlake/MacArthur Park (Phase A)</td>
<td>-</td>
<td>90</td>
<td>-</td>
<td>90</td>
<td>100%</td>
<td>2012</td>
</tr>
<tr>
<td>One Santa Fe</td>
<td>350</td>
<td>88</td>
<td>-</td>
<td>438</td>
<td>20%</td>
<td>2014</td>
</tr>
<tr>
<td>Taylor Yard (Lot 1)</td>
<td>-</td>
<td>87</td>
<td>-</td>
<td>87</td>
<td>100%</td>
<td>2014</td>
</tr>
<tr>
<td>Taylor Yard (Lot 3)</td>
<td>-</td>
<td>68</td>
<td>-</td>
<td>68</td>
<td>100%</td>
<td>2014</td>
</tr>
<tr>
<td><strong>COMPLETED AND SOLD (Not included in tallies - not owned by Metro)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Del Mar</td>
<td>326</td>
<td>21</td>
<td></td>
<td>347</td>
<td>6%</td>
<td>2007</td>
</tr>
<tr>
<td>Sierra Madre Villa - Phase I</td>
<td></td>
<td></td>
<td>188</td>
<td>188</td>
<td>0%</td>
<td>2007</td>
</tr>
<tr>
<td><strong>UNDER CONSTRUCTION / CLOSED</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taylor Yard (Lot 4)</td>
<td>-</td>
<td>-</td>
<td>41</td>
<td>41</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Taylor Yard (Lot 5) - Senior Housing &amp; Commercial Pad</td>
<td>-</td>
<td>108</td>
<td>-</td>
<td>108</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td><strong>IN NEGOTIATIONS (Current proposals, subject to change)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Westlake/MacArthur Park (Phase B)</td>
<td>-</td>
<td>82</td>
<td>-</td>
<td>82</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>1st &amp; Boyle</td>
<td>-</td>
<td>80</td>
<td>-</td>
<td>80</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>1st/Lorena</td>
<td>-</td>
<td>53</td>
<td>-</td>
<td>53</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Vermont/Santa Monica</td>
<td>114</td>
<td>-</td>
<td></td>
<td>114</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Taylor Yard (Lot 2A)</td>
<td>-</td>
<td>-</td>
<td>54</td>
<td>54</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Taylor Yard (Lot 2B)</td>
<td>-</td>
<td>42</td>
<td>-</td>
<td>42</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>West Hollywood (Div. 7)</td>
<td>-</td>
<td>mixed use no affordable</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal - Completed</strong></td>
<td>1,066</td>
<td>682</td>
<td>329</td>
<td>2,077</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal - In Construction</strong></td>
<td>-</td>
<td>108</td>
<td>41</td>
<td>149</td>
<td>72%</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal - In Negotiations</strong></td>
<td>114</td>
<td>257</td>
<td>54</td>
<td>425</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>1,506</td>
<td>1,047</td>
<td>612</td>
<td>2,651</td>
<td>39%</td>
<td></td>
</tr>
</tbody>
</table>
## POTENTIAL HOUSING SITES OWNED BY METRO

A preliminary list scored by suitability (1-5)

<table>
<thead>
<tr>
<th>Site Name</th>
<th>Metro Line</th>
<th>Acres</th>
<th>Current Use</th>
<th>Score</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st / Soto Gold</td>
<td>1.38</td>
<td>Vacant</td>
<td>5 Adjacent to Gold Line Soto Station portal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cesar Chavez / Soto Gold</td>
<td>1.37</td>
<td>Vacant</td>
<td>5 Blocks from Gold Line</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mariachi Plaza Gold</td>
<td>1.44</td>
<td>Vacant</td>
<td>5 Significant parcel to Boyle Heights community</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sepulveda Orange</td>
<td>10.6</td>
<td>Surface Parking</td>
<td>5 Large site could accommodate housing &amp; parking structure, currently under utilized</td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Hollywood Red/Orange</td>
<td>12</td>
<td>Portal, Surface Parking</td>
<td>4 Large parcel conducive to residential and commercial development, requires replacement parking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Universal City Red</td>
<td>10</td>
<td>Portal, Surface Parking</td>
<td>4 Requires replacement parking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Artesia Station Blue</td>
<td>7.19</td>
<td>Surface Parking</td>
<td>4 May receive funding for TOD Planning Grant Round 4. Land use constraints.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heritage Square Station Gold</td>
<td>1.52</td>
<td>Surface Parking</td>
<td>4 Adjacent to I-110, affordable housing project being built just north of the parcel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reseda Orange</td>
<td>1.14</td>
<td>Surface Parking</td>
<td>4 Parcels are split between the busway, though could be used for structures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crenshaw / Expo</td>
<td>1.5</td>
<td>Acquisition for Parking</td>
<td>4 Intersection of Crenshaw / Expo Lines, opportunity for transit amenities, requires replacement parking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indiana Avenue Gold</td>
<td>0.64</td>
<td>Surface Parking</td>
<td>3 Small parcel located in Boyle Heights, a high need area, potential medium density location</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duarte Gold (extn)</td>
<td>1.5</td>
<td>Surface Parking</td>
<td>3 Requires coordination with City and developer, replacement parking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Florence Blue</td>
<td>1.5</td>
<td>Surface Parking</td>
<td>2 Long rectangular parcel, requires replacement parking on a small lot</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aviation/ LAX</td>
<td>2.5</td>
<td>Bus Facility/ Parking</td>
<td>2 Owned by Caltrans, requires relocation of bus facility*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temple/Beaudry none</td>
<td>1.31</td>
<td>Vacant</td>
<td>2 Adjacent to 101 Fwy and junkyard, may require acquisition, not near an existing station</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vermont/Beverly Red</td>
<td>0.57</td>
<td>Station Portal</td>
<td>2 Requires acquisition or negotiation with neighboring properties</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Van Nuys Station Orange</td>
<td>6.78</td>
<td>Surface Parking</td>
<td>2 Linear site, Orange Line conversion to LRT would require the property</td>
<td></td>
<td></td>
</tr>
<tr>
<td>El Monte Silver</td>
<td>5</td>
<td>Surface Parking</td>
<td>2 Requires acquisition and replacement parking, adjacent to 10 Fwy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canoga Orange</td>
<td>2.4</td>
<td>Surface Parking</td>
<td>2 Orange Line conversion to LRT would require the property, replacement parking required, study shows market is insufficient presently</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Caltrans is considering conveyance of this single site to metro
**Metro Joint Development Housing Sites**

**Completed**

1. Hollywood/Vine
2. Hollywood/Western
3. Wilshire/Vermont
4. Wilshire/Western
5. Westlake/MacArthur Park (Phase A)
6. Grand Central Market
7. One Santa Fe
8. Taylor Yard Lots 1,3,5,7,8
9. Del Mar
10. Sierra Madre Villa (Phase I)

**Under Construction**

- Taylor Yard Lots 2,4,5

**In Negotiations**

1. West Hollywood (Division 7)
2. Vermont/Santa Monica
3. Westlake/MacArthur Park (Phase B)
4. 1st/Boyle
5. 1st/Lorena

*Completed and sold. Not included in attached tallies.*

---

Metro Joint Developments

- Completed
- Under Construction
- In Negotiations

**Existing Service**

- Metro Rail and Stations
- Metro Liner and Stations
- Metrolink

**Under Construction**

- Crenshaw/LAX Line
- Metro Expo Line Phase 2
- Metro Gold Line Foothill Extension
- Metro Purple Line Extension Phase 1
- Regional Connector

---

Metro

Los Angeles County

Orange County

Ventura County
## Potential Housing Sites Owned By Metro

### Potential Sites

<table>
<thead>
<tr>
<th>Site</th>
<th>Acres</th>
<th>Current Use</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canoga Park/Ride</td>
<td>2.4</td>
<td>Surface Parking</td>
<td>2</td>
</tr>
<tr>
<td>Sepulveda Park/Ride</td>
<td>10.6</td>
<td>Surface Parking</td>
<td>5</td>
</tr>
<tr>
<td>North Hollywood</td>
<td>12</td>
<td>Portal, Surface Parking</td>
<td>4</td>
</tr>
<tr>
<td>Universal City</td>
<td>10</td>
<td>Portal, Surface Parking</td>
<td>4</td>
</tr>
<tr>
<td>Mariachi Plaza</td>
<td>1.44</td>
<td>Vacant</td>
<td>5</td>
</tr>
<tr>
<td>1st/Soto</td>
<td>1.38</td>
<td>Vacant</td>
<td>5</td>
</tr>
<tr>
<td>Cesar Chavez/Soto</td>
<td>1.37</td>
<td>Vacant</td>
<td>5</td>
</tr>
<tr>
<td>El Monte</td>
<td>5</td>
<td>Surface Parking</td>
<td>2</td>
</tr>
<tr>
<td>Florence</td>
<td>1.5</td>
<td>Surface Parking</td>
<td>2</td>
</tr>
<tr>
<td>Artesia Station</td>
<td>7.19</td>
<td>Surface Parking</td>
<td>4</td>
</tr>
<tr>
<td>Heritage Square</td>
<td>1.52</td>
<td>Surface Parking</td>
<td>4</td>
</tr>
<tr>
<td>Reseda</td>
<td>1.14</td>
<td>Surface Parking</td>
<td>4</td>
</tr>
<tr>
<td>Crenshaw/Expo</td>
<td>1.5</td>
<td>Acquisition for Parking</td>
<td>4</td>
</tr>
<tr>
<td>Indiana</td>
<td>0.64</td>
<td>Surface Parking</td>
<td>3</td>
</tr>
<tr>
<td>Duarte</td>
<td>1.5</td>
<td>Surface Parking</td>
<td>3</td>
</tr>
<tr>
<td>Aviation/LAX</td>
<td>2.5</td>
<td>Bus Facility/Parking</td>
<td>2</td>
</tr>
<tr>
<td>Temple/Beaudry</td>
<td>1.31</td>
<td>Vacant</td>
<td>2</td>
</tr>
<tr>
<td>Vermont/Beverly</td>
<td>0.57</td>
<td>Station Parking</td>
<td>2</td>
</tr>
<tr>
<td>Van Nuys</td>
<td>6.78</td>
<td>Surface Parking</td>
<td>2</td>
</tr>
</tbody>
</table>

### Diagram

- **Ventura County**
- **Los Angeles County**
- **Orange County**

**Metro**

- **Existing Service**
  - Metro Rail and Stations
  - Metro Liner and Stations
  - Metrolink
- **Under Construction**
  - Crenshaw/LAX Line
  - Metro Expo Line Phase 2
  - Metro Gold Line
  - Foothill Extension
  - Metro Purple Line Extension Phase 1
  - Regional Connector
Memorandum

To: LACMTA
   Cal Hollis
   Marie Sullivan
   Jenna Hornstock

From: Ann Sewill, California Community Foundation
      Cecile Chalifour, Low Income Investment Fund

CC: Jacqueline Waggoner, Enterprise Community Partners
    Sean Rogan, LACDC
    Cordé Carrillo, LACDC
    Pansy Yee, LACDC
    Rushmore Cervantes, HCIDLA
    Helmi Hisserich, HCIDLA
    Sean Spear, CDLAC
    Alice Carr, JP Morgan Chase
    Amy Chung, The California Endowment
    Michelle Holleran, The California Endowment

Date: December 19, 2014

RE: Advising Metro on a Potential Transit Oriented Affordable Housing Lending Program
   (the “Program”)

This outlines a proposed structure of a co-lending program (“Program”) to be used by a group of lenders,
including foundations, Metro, Community Development Financial Institutions (“CDFI’s”) as well as
commercial banks, to encourage the production and preservation of affordable homes and preserve future
affordable development opportunities within ½ mile of major transit nodes or rapid bus lines in Los
Angeles County. The Program focuses on multifamily rental development; other funds are forming to
address the preservation and development of commercial and industrial properties.

Four years ago Dr. Stephanie Pollack at Northeastern University published a report titled “Maintaining
Diversity in America’s Transit Rich Neighborhoods: Tools for Equitable Neighborhood Change” that
suggested that in neighborhoods near transit that lost low income residents due to rising rents or housing
prices transit ridership declined and car ownership went up. Last summer the Center for Neighborhood
Technologies completed another study that analyzed the California Household Transportation Survey
results by income, proximity of home to transit, and transit use for households across California that
found that lower income residents living near transit stops took transit 50% more than higher income
residents.

The idea that preserving and increasing opportunities for low income residents to live near transit is
important to increasing ridership led to Metro, the California Community Foundation, and The California
Endowment commissioning a study by Enterprise Community Partners, Low Income Investment Fund
and Center for Transit Oriented Development of tools Metro could use to encourage affordable housing
and job creating development near transit. The suggestions below are based on the findings from this
study as well as the findings of the Capital Absorption Workshop conducted in Los Angeles through the Living Cities initiative; and priorities identified by the LA THRIVES Capital Resources Working Group, which includes foundations, CDFI’s, banks, developers and representatives of local public agencies.

The study found that there are several funds and community development lenders making affordable housing loans in Los Angeles county, but none of them respond to the needs identified by potential developers for long term, patient, higher risk, flexible capital needed to secure future development opportunities near transit that may or may not be subsidized with traditional sources. This proposal is intended to address four types of unmet needs for which there are few existing, readily available and good financing tools:

- Jump Starting Developments – There is a need to jump start development activity in some neighborhoods. Those deals need public subsidies such as Low Income Housing Tax Credits (“LIHTCs”), forgivable or deferred payment loans, grants, fee reductions, and development incentives.

- Preservation - Purchase and preservation of naturally occurring affordable housing both to secure housing for existing residents, and to ensure affordable housing is included in future development opportunities. These are most often small or mid-sized buildings of up to sixty units that have historically been de facto affordable based on location and long term tenancies and are at risk due to rising rents in certain areas near transit.

- Early Start Developments - Projects in existing affordable project pipelines that could be started with a low (below $20,000) per-unit investment that could be paid back from operating cash flow within ten years, thus ensuring that units come on line within a few years.

- Mixed income and / or mixed use projects that can provide some affordable housing without deep subsidies.

**Proposed Program Uses**

Based on the list of unmet needs, the portfolio would be mixed and include:

- Preservation of existing residential properties. These need patient acquisition and rehab financing that covers repairs and reserves identified in a physical needs assessment, to allow developers to hold on to the property and operate it until the take out resources are secured.

- Early Start Developments, either new construction or substantial rehabilitation for affordable deals that are ready to start with minimal (less than $20,000 per unit) subordinate loans. These could include 4% or 9% LIHTC deals, mixed income or 100% affordable, that need equity, mezzanine debt or subordinate hard debt to be repaid by available cash flow during first ten years. For those stalled pipeline deals, a small well-priced loan, mezzanine, subordinate or unsecured debt, during the acquisition phase or the construction/permanent phases, could get them to move forward.

- Mixed income deals – These would be lower interest equity or mezzanine debt loans for new construction projects that covenant to include at least 30% affordable units.
Unsecured Predevelopment loans for projects in cooler markets supported by local CDCs that include affordable units might be a crucial component of the deal feasibility.

Eligible Lending Program Projects:
- Mixed income
- 100% affordable
- Mixed use that includes multifamily residential – affordable or mixed income - and non-residential components

Geography:
- The Lending Program will target projects within a ½ mile radius around transit stops – fixed rail and frequent headway buses.
- It will be available throughout the county, with participation from localities.

Definition of affordable rents and eligible incomes:
- Metro and Lenders will set goals for the overall Program for affordability but allow a range of affordability levels for deals depending on availability of subsidy, neighborhood goals, and ridership goals.

Target Borrowers:
- Nonprofit and for profit developers that meet requirements for financial and development capacity, and local community development corporations ("CDC’s").
- Partnerships between experienced developers and local CDC’s will be strongly encouraged.

Program Size and Allocations

The estimated size and use of the Program would be $70,000,000, allocated to the following:

- $40,000,000 in equity and mezzanine debt for preservation transactions.
  - Maximum loan of $60K per existing unit from the program which will be subordinate to conventional loans offered by cooperating lenders. Program would finance about 10 to 20 projects, with 7 to 10 year terms. We need to develop criteria for targeting this product which will be in high demand. The Program will also require reasonable equity contributions or guarantees from developers.

- $9,000,000 in subordinate hard debt financing, for deals that are ready to start construction within three to six months and that have targeted affordability levels.
  - Program would finance about 5 to 10 projects with term of up to ten years with possible extensions to 15. Repayment would be from operating cash flow.

- $15,000,000 for predevelopment loans in cooler markets.
  - Maximum amount per loan of $500,000 - $1,000,000. Program would finance about 20 deals with 4 to 5 year term. These loans would be for entitlement and pre-construction costs to supplement other acquisition sources.

- $6,000,000 flexible capital to be used in any of the categories above as needed.
Capital in each category may be flexibly deployed in other categories if demand is insufficient to use within the first three years, subject to agreement by top tier participants.

Outline of the Loan Program Structure

1. Term will be 7 – 10 years, with up to 15 year term for the subordinate hard debt type financing. There will be a 3-year origination period, with the possibility to extend to 4 or 5 years.

2. Program would combine three tiers of capital for each transaction:
   - First tier: Metro investment at 1% interest for 15 years $10MM
   - Second tier: Program Related Investments and Grants from Foundations or Corporations at 1% interest for 15 years, $7.5MM
   - Third tier: Originating lenders (CDFIs) –
     - Will provide loans for 25 - 30% of each transaction.
     - For the predevelopment loans and smaller catalytic loans the CDFIs may provide up to 100% of the capital needed below the top loss capital.

3. The Program will also provide financing on top of senior lenders. Maximum LTV on secured deals to be acceptable to all three tiers of lenders.

4. Interest rates charged to borrowers will be very competitive, reflecting the low interest rates of the top tier lenders and modest fee structure.

5. Losses will be allocated by tier, with the first tier taking the top loss, the second tier taking the subsequent losses, and the third taking additional according to agreed allocations per program. Note that the first two tiers could be combined into one shared tier, or divided in more layers. In the Transit-Oriented Affordable Housing (“TOAH”) Fund in the San Francisco Bay Area, the transit agency is in the top loss position.

6. For the preservation deals at least two banks will be pre-identified as “cooperating lenders”, to participate only as needed. Banks and other financial institutions will provide permanent or semi permanent loans.

7. To be effective the Program must be flexible and capable of responding to loan proposals within a few weeks rather than months. This will require each participating lender – CDFI’s, Metro, Foundations and others – to approve the Program underwriting guidelines and procedures and to delegate approval to the Program Managers as long as proposals meet the approved guidelines.

Note that the investment by Metro is highly leveraged by the foundations and CDFI dollars so that the total unit production goal is approximately 3,500 over the ten year life of the Program. If Metro were to use an allocation of $10,000,000 as permanent subsidy in lieu of local, state or federal housing subsidies it would be able to support production of 70 to 200 units at current typical subsidy levels of $80,000 to $150,000 per unit.

This brief proposal does not go into detail about the potential permanent funding sources for affordable housing developed by the Program’s borrowers. It is assumed that these will include Cap-and-Trade Auction proceeds through the Affordable Housing Sustainable Communities program, HOME Trust
Funds, Community Development Block Grant, as well as new sources such as local designations of the "boomerang" redevelopment funds, and the National Housing Trust fund.

Unlike other currently available funds that closely link site acquisition loans to availability of permanent subsidy for affordable housing, this Program will evaluate each borrower's exit strategy, which may include reuse to higher density market rate and affordable development, or continued preservation of the existing units.

Program Administration

The proposed program structure is based on the lessons learned from structuring and managing existing "Funds" or other financing vehicles, including the Golden State Acquisition Fund (GSAF), Bay Area Transit Oriented Affordable Housing fund (TOAH) and the Los Angeles County Housing Innovation Fund (LACHIF). Most of the CDFIs in the State are involved in one form or another in those financing vehicles. The structure outlined below will offer the most flexible, efficient and affordable option. The program balances the need to incentivize developers to develop equitable TOD projects and at the same time allow an appropriate level of control to funders.

This program will create a pool of "top loss capital" funded by philanthropy and Metro ("the funders") to leverage additional financing. This pool will be set as a separate legal entity, a LLC. The funders will execute a LLC operating agreement and deposit the funds on a LLC account managed by an administrative agent, a lead CDFI. The pool will be accessible to preapproved CDFI originating lenders as LLC members.

The originating CDFI will fund transactions through the menu of financial products described above. Each transaction will be partly funded from the "top loss capital" pool, between 25% and 50% depending on the product. The originating CDFI will provide the rest of the financing for its transactions. The originating CDFIs will be able to include participating lenders, either pre-approved CDFIs in pari passu shared risk structure, or banks in a senior/junior structure, as needed for larger transactions. The originating CDFIs will be required to maintain a minimum participation in each transaction. Each CDFI will service its own loans.

The proposed transaction approval process:

- A list of guidelines, basic underwriting criteria, will be included in the LLC agreement. The guidelines will include all points important to the funders in terms of risk regarding project structure, risk and collateral, developer qualifications and guarantees, affordability, and leverage. The pool will rely on the preapproved CDFIs’ systems and experience for full underwriting of the transactions. The criteria will include strong requirements regarding developers’ experience and financial strength. For smaller developers, it will encourage joint ventures with experienced partners.

- Each originating CDFI will approve its transactions internally, and then submit its approval package for final approval.

- Final approval of the transactions, confirming they comply with the list of underwriting criteria for each product will be done by an Administrative Review Committee including the philanthropic partners and Metro. This committee will set up systems to allow timely review of proposed projects within five business days.
The process is similar to the system established for the Golden State Acquisition Fund, which requires that the State of California Housing and Community Department sign off on transactions once approved by the originating lenders, based on very specific approved lists of criteria within five business days.

As loans are approved the lead CDFI will act as administrative agent for the “Top Loss Capital Pool” and handle all funding, servicing and reporting for the LLC, including all loan disbursements, reports, audit, modifications, and other actions as needed.

There will be costs associated with the structuring. Based on the experience of the GSAF and TOAH funds those costs can be estimated at $100,000 - $150,000 to create the entity and design the agreements between all parties. These costs would be funded by the top tier lenders.

We recommend that Metro staff first secure approval of the top loss pool structure, total investment amount, the LLC agreement and the program guidelines. Once the overall structure has been agreed upon, staff will return for final approval authorizing the execution of the LLC operating agreement, release of funds and approval of the transaction approval process described above.