



Convening on Transit Oriented Development
The Foundation Perspective
February 2009

Prepared for:
**Center for Transit
Oriented Development (CTOD)**
Living Cities
Boston College Institute for Responsible Investment

Prepared by:
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Overview

This briefing paper was commissioned by Living Cities; Center for Transit Oriented Development; and Boston College Institute for Responsible Investment in January 2009. The purpose of the paper is to:

- explore how foundations currently are supporting TOD;
- identify lessons they have learned from past and current investments; and
- assess whether foundations are interested in the prospect of supporting a national/regional/local property acquisition fund to support TOD.

The findings presented in this paper are based in large part on interviews conducted with national, regional and local foundations and national experts on TOD. (Please see Appendix A for a list of interviewees.) The interviews identified that:

- foundations are increasingly using grants, program related investments (PRIs), and other strategies, such as convenings and technical assistance, to support TOD;
- they are interested in continuing to provide support to TOD through traditional and non-traditional means;
- the TOD that foundations are interested in must be sustainable and/or promote equity in communities; and
- foundations are interested, at least conceptually, in the development of a TOD land acquisition fund.

The interviews also uncovered a number of real and perceived barriers to creating such a fund that would have to be dealt with before the fund would be a viable investment option for many foundations, including the profound impact that the economic crisis is having on foundation grants and investments. Although some of the hurdles identified will be challenging to overcome, many funders believe that they are not insurmountable and they look forward to the prospect of working with their private, public and nonprofit partners to move a TOD agenda forward in the United States.

Foundation Engagement in TOD

For many years, foundations have supported efforts that have helped shape TOD, particularly through support of affordable housing, community development, and transportation reform. Funders primarily have relied on direct grantmaking and program related investments (PRIs) to support these efforts. Today, a handful of foundations are looking more closely at TOD as an integrative strategy to achieve their programmatic goals. Now, in addition to grantmaking and/or PRI strategies, some funders are supplementing their grantmaking and investment strategies with a variety of other methods to support TOD, such as providing technical assistance, convening community members, supporting advocacy and policy work, participating in funder collaboratives, and so on.

Grantmaking

Grantmaking related to TOD takes many forms. A small number of funders support land or property acquisition through their grantmaking portfolios, for example, with grants to support the Acquisition Fund in New York, a \$230 million, public-private partnership led by the New York City Department of Housing Preservation and Development that assists nonprofit and small, for-profit affordable housing developers by providing the needed capital for property acquisition and predevelopment costs. For most funders, however, the high cost of purchasing land compared to their relatively limited grantmaking budgets precludes them from making grants for land purchases. Thus, foundations are typically making grants where they think they can have the greatest impact and ensure that their programmatic goals, especially related to equity and sustainability are achieved. With this in mind, the majority of funders have determined that making grants for TOD is best done in the pre-development phase. Types of pre-development grants made by foundations are listed in Table 1.

Table 1. Types of TOD Grants Made by Foundations in Pre-development Phase of TOD

| Community Planning | Technical Assistance and Skills Building | Other |
|---|--|--|
| Convening stakeholders including, for example, community members, business leaders, planning officials, nonprofit organizations, etc. | TOD basic education and skills-building training | Environmental assessment and remediation especially for brownfield and infill development |
| Community visioning | Tool kits and other skills-building resources | Analysis of impact on businesses, especially minority-owned businesses, and relocation costs |
| Community asset mapping | Communications and marketing to promote a TOD agenda | General TOD advocacy and education |
| Planning at the neighborhood, municipal, or regional levels | Advocacy training | |
| Zoning studies and advocacy efforts to change zoning requirements | | |

Grants in the pre-development stage are often made to community development corporations or other types of nonprofit organizations, for example, nonprofits that work in the areas of affordable housing, planning, economic development, community organizing, and the environment.

Foundations are inclined to invest in the pre-development stages of TOD for a number of reasons. On a macro level, they recognize that the TOD movement is nascent and that to build the movement, they have to invest in the early stages of a project to help make the case for TOD and lay the foundation and education for significant investments from the private and public sectors. Further, they are aware that seed capital for the initial steps in a TOD project is often the hardest to raise because private investors and public entities tend to want to invest in projects once there is some momentum and community backing for a project. Foundations also see the importance of getting communities engaged in TOD-related efforts early in the process, before critical planning and zoning decisions are made. As Roger Williams, Senior Fellow of Neighborhood Development at the Annie E. Casey Foundation said, “Left to their own devices, public agencies won’t always look out for low to moderate income communities.” Finally foundations are aware that because the capital available to them is relatively limited, as compared to the resources that private investors and government agencies have available, that the resources they might have access to for later stage development investments are dwarfed in comparison and thus their influence in the later stages is more limited.

For some funders, however, the limits that a relatively small grantmaking budget may have on their efforts are being overcome through the use of PRIs.

Program Related Investments

A program related investment (PRI) is a tool foundations can use to leverage their philanthropic dollars. Unlike grants, foundations get a return on their investment, through either repayment or return on equity. PRIs give charitable organizations or commercial ventures access to needed capital, typically at below-market rates. In return, the funder is often able to recycle PRI payments for subsequent charitable investments.¹ PRIs require foundations to develop in-house expertise on how to make PRIs, or, particularly in the case of smaller foundations, PRIs may be managed with help from outside consultants. PRIs typically come in the support of a short-term low-interest loan. Some PRIs are structured so that a portion of the capital plus interest is paid in regular installments over a set period of time, while others are set-up with interest only payment schedules with a balloon payment at the end, or, some combination of both. PRIs can be either secured or unsecured.

Transit oriented development funders interviewed for this briefing paper have used PRIs in a number of ways, depending on their overall programmatic priorities. It should be noted that for the most part, funders have not made significant PRIs for TOD-specific investments, although there is considerable interest in moving in that direction. PRIs in this arena primarily have been used to support TOD-related property acquisition efforts, including paying for upfront support for a land acquisition fund, or, supporting a city-wide land acquisition fund for affordable housing.

One example of how a funder has made a TOD-specific PRI is in Denver, Colorado where the Rose Community Foundation has committed \$500,000 toward a \$15 million property acquisition fund that will be used as a credit facility for the Urban Land Conservancy and its nonprofit development partners. The purpose of the fund is to support the acquisition of properties near current or future light rail stations and major bus corridors for future development of affordable housing, and/or or mixed income or mixed use

¹ PRI Makers Network, www.primakers.net

projects that include affordable housing. The Urban Land Conservancy will work with its development partners to define a redevelopment plan for each site during the holding period.

Other Roles for Foundations and TOD

Foundations play a number of roles in an effort to advance transit oriented developments, particularly at the local or regional level. Increasingly, they are viewing themselves not just as transactional distributors of money, but also as partners in a movement to improve the communities in which they work. As Arlene Rodriguez, Program Officer at the San Francisco put it, “We must challenge our partners and ourselves to go beyond what seems is a normal role for foundations to play in partnership, and we must be really creative about it.”

What this has meant for some funders is that they are trying to use all of the tools available to them to help advance TOD projects that are both equitable and sustainable. In addition to grantmaking and PRI making, they are becoming active players in TOD efforts, and are not expecting the other actors in the communities to do all of the hands-on work. For example the Minneapolis-based McKnight Foundation helped to convene a funders collaborative, The Central Corridor Funders Collaborative (CCFC), that is serving as a forum to involve and learn with many other funders, nonprofits, public and private agencies, business groups, and community members about TOD. CCFC seeks to “unlock the transformative potential of the new LRT line” and ensure the adjacent neighborhoods and people who live and work there share in the benefits of this public investment. The new transit line that runs from downtown Minneapolis to Saint Paul provides opportunity to many different stakeholders, including lower income communities and communities of color. McKnight has been one of only a couple of funders engaged in this area of work and does not come in assuming that they have the answers to the challenging issues raised in developing a new transit line. Rather, they are helping to convene – and are participating in - a community-wide network to create a learning agenda that looks at a variety of issues including gentrification, land value, protecting the assets of minority-owned businesses, and more. They are one of 12 foundations (some local and national) contributing to a \$5 million catalyst fund that will be used for a variety of grants related to the new transit line.

Like the McKnight Foundation, other TOD funders are working hard to encourage other foundations to support TOD. Some place-based funders have taken on the responsibility for educating their peers within their local community to support TOD, and some see their role as serving as a conduit between local and national funders. As one community foundation representative noted, “Our in-depth knowledge on the ground helps us reach up to national funders in order for national grants to be effective and substantial.” National funders are also seeking to bring awareness of successful TOD projects to other funders and are encouraging them to support TOD that fits within their funding priority areas.

Funders increasingly are taking advantage of the perception that foundations are “neutral conveners” and are orchestrating meetings with a variety of stakeholders at the community level who have a vested interest in TOD. Funders are also hiring planning consultants, providing technical assistance, and engaging in local, state and federal advocacy efforts. Finally, funders mentioned that they are providing informal support to local leaders, such as staff and members of community development corporations and local mayors to encourage them to learn more about TOD and get involved in advancing a TOD agenda in their communities.

Table 2. Foundation Activities Related to TOD that Are Neither Grantmaking or PRI Activities

| Convening and Community Engagement | Other |
|---|--|
| Funder collaborative development and participation | Raising funds from other foundations |
| Community collaborative development and participation | Hiring planning and other consultants |
| Convening community members/leaders from nonprofits, government, private investors, funders | Engaging in TOD advocacy and policy work at the local, state, federal levels |
| Lending credibility to TOD projects by being visible supporters | Supporting local nonprofit and government leaders to learn about and get engaged in TOD work |
| | Providing direct education and technical assistance to nonprofits, government entities and funders |

Foundations and TOD: Learning from Experience

Over the years, the appetite for transit oriented development seems to have grown among funders, which mirrors the national desire among cities to want to increase investments in public transportation, mixed use developments, and affordable housing. Foundations recognize that equitable and sustainable TOD helps build strong communities by giving people, especially low to moderate income residents, access to jobs, healthcare, and an array of other public and private services and amenities, while reducing carbon footprint. As Don Chen, Program Officer at the Ford Foundation says, TOD investments, when done well, can lead to important structural change:

“Cities all over the country are building new transit systems, and those who aren’t, want to. Ridership is at record levels, so we’re going to see more activity around transit and thus a lot more development, including more dense development, along those corridors. We’re also seeing that property along reliable corridors is becoming much more attractive to people of lower and higher incomes and the result of that could be a displacement of very low income housing as leases expire for subsidized housing along existing corridors. And that’s a serious, serious problem. The third issue is that once you build, things are set for the next generation. So we’re really trying to build-in some affordability along transit corridors now. That’s one of the biggest regional development challenges that we have. Our ultimate goal is to link people to opportunities so that they have access to regional job markets and to link them to a network of services that may not exist in their communities.”

Facilitating an Integrated Approach to Strengthening Communities Within and Among Foundations

Other funders commented on the benefit that TOD can bring to foundations that have comprehensive, multi-disciplinary approaches to community development. Because TOD incorporates so many different interests common to grantmakers, such as affordable housing, economic development, workforce development, equity and inclusiveness, environment, public policy, and more, TOD as a grantmaking strategy can help align the interests of a foundation and help achieve multiple programmatic goals simultaneously. As Vanitha Venugopal, Senior Program Officer at the Surdna Foundation says, “In philanthropy we always talk about integrating our work and busting silos between sectors. TOD is a natural in terms of multi-benefit multi-sector impacts because by its nature it’s integrated.” Venugopal also makes the point that TOD offers opportunities for a variety of grantmaking strategies for foundations with different approaches to grantmaking. For example, foundations that support organizing, or visioning/planning, or advocacy, or tools development, or implementation of projects, can all find a place for their strategies within a TOD project.

“There is an arc of opportunity to collaborate and stagger investments to have a significant impact in transit corridors and around station areas,” according to Venugopal.

Not All TOD Looks the Same: Focus on Equitable and Sustainable TOD

Having said that, funders emphasized that not all TOD is a worthy investment for grantmakers. Some transit oriented developments, they noted, do not value equity or sustainability. Which is why, these funders add, the nonprofit sector – including funders - needs to be present early in the process to ensure that equity and sustainability are priorities that are integrated into every step of the process, from visioning, to site selection, to designing pedestrian walks and open space access.

Invest over the Long-Term

Finally, funders noted that TOD projects are very long-term and that funding TOD requires a willingness to engage in the project for many years. The outcomes are very long-term and the process from inception to completion spans many years. After a multi-year intensive investment of time and money, one place-based funder who is deeply involved in their community-level TOD efforts recognized that the foundation would need to continue to provide financial and staff resources for many more years for their initial investments to be maximized. They noted that in hindsight, they would have liked to have educated their board earlier in the process about the level of investment required and solidified a longer-term commitment from their board.

Seeding a TOD Land Acquisition Fund

The growing interest in TOD has engendered a conversation among TOD advocates and funders about the possibility of developing a national, regional, and/or local property acquisition fund. Funders who were interviewed for this briefing paper were asked to provide preliminary reactions to the question of whether their foundations might be interested in supporting a fund with the following characteristics:

- ❑ Could be used to purchase land for TOD near existing or planned public transportation stations;
- ❑ Would support both market rate and affordable housing projects, depending on specific local contexts and need, and/or mixed use developments;
- ❑ Would be available to purchase land as well as existing buildings with housing that is currently affordable, but vulnerable to gentrification in the future;
- ❑ Support could come from private and/or public entities; and
- ❑ Could be used to support local, regional and/or national efforts.

Strong Conceptual Support for a TOD Property Acquisition Fund

The funders who were interviewed generally expressed strong support for the idea of such a fund. They stressed that there are compelling contextual reasons to capitalize a property acquisition fund in the next few years. First, because of to the economic downturn and the falling price of real estate, land is cheaper than it has been in many years. Second, the federal stimulus plan may provide an opportunity to shore-up TOD efforts. A land acquisition fund with foundation backing would make public investments in TOD, stemming from the stimulus package, more competitive than other similar projects without such backing.

On a related note, as a result of the economic downturn, PRIs for TOD and other related investments are gaining interest because a two percent return on investment is “actually looking pretty good these days”, as one national expert on community development land banking noted. (It is likely that a significant portion of the funding from foundations for such a fund would be made through PRIs, although some funders may use grants to support an acquisition fund, or a combination of PRIs and grants; for example, the MacArthur

Foundation recently pledged over \$8 million in grants and up to \$60 million in PRIs to help with the foreclosure crisis in Chicago.) Further, this national expert noted that in this economic environment, private funders are concerned that in order to reach the minimum pay-out of five percent of their assets that is required by law, recouping their losses may take generations. PRIs, however, count toward the five percent pay-out minimum and unlike grants, the vast majority of PRIs will be returned to funders over the term of the investment, plus it will come back with interest, albeit at a relatively low rate.

Preconditions for Support of a TOD Property Acquisition Fund

There were three themes that surfaced from funders about the conditions that would have to be in place in order for them to consider supporting a TOD property acquisition fund. (Not all funders discussed all themes, but most funders discussed at least two of them.)

- First, the fund would have to have the ability to be segmented by markets. Most TOD funders (but certainly not all), including many national funders, have geographic funding priorities, and they would only be likely to invest in a fund that would be targeted to their specific funding areas.
- Second, the fund would have to ensure that communities were engaged in developing the TOD site. A number of funders stated that TOD efforts that do not actively include the communities most impacted by the transit lines or stations, are not successful at ensuring that low and moderate income residents benefit from the TOD.
- Finally, for some foundations, the fund would have to private and public sector dollars, not just foundation investments. As stated previously, even with PRIs, foundation investments cannot come close to the scale that private and public sector investments can. Foundations see themselves as catalysts to stimulate investments from other sectors, and without the guarantee of leveraging support of larger public and private investors their investments wouldn't have the desired impact.

Barriers to Realizing the Dream of a TOD Property Acquisition Fund

Even if the preconditions identified above were met, funders identified a number of additional barriers that would have to be overcome in order for the fund to be successful. Timing was one of the main concerns. Although the market is ripe for purchasing land, the situation that most foundations find themselves in with regards to their assets is rotten. A new study by the Chronicle of Philanthropy of 57 medium and large foundations across the country indicates that their assets fell by a median rate of 29 percent in 2008. The Council on Foundations projects that foundations lost over \$200 billion in assets in 2008. Many foundations are gearing up for further declines in 2009. In this environment, many funders are struggling to fund the grantees they have been supporting for years and have put an indefinite moratorium on funding new efforts. As one funder put it, "Philanthropy is closing more doors rather than opening them," so this may not be a good time to approach foundations with new funding opportunities.

A second area of concern that a number of interviewees discussed is the relatively small pool of foundations who would be interested in capitalizing such a fund and supporting its ongoing operations. Even in that pool, many foundations may be bound up by internal silos and staff who do not see the bigger vision of how such a fund could support the institution's work across program areas. One funder put it this way: "I don't know how much of an appetite there is for it. There is a siloed specialization that exists in foundations, with affordable housing advocates on one side, transportation advocates on the other side, and they're not cross-trained."

On a related note, it was observed that supporting such a fund would require a significant degree of internal expertise within foundations because there are many complexities inherent in evaluating investments in complex land deals. To address this concern, the fund would need to have staff that would help foundations maneuver the complexities, sell the idea to their senior leadership, and generally provide technical assistance to funders to help them wade into these waters. As Christa Velasquez, Director of Social Investments at the Annie E. Casey said, “It’s so important to provide quality capacity building and technical assistance to organizations and communities around land acquisition and TOD issues.”

Another area of concern relates to the perceived risk-averse nature of some PRI makers. TOD investments are not simple and they do not lend themselves to immediate returns on investment. One PRI maker who was interviewed bluntly stated that overcoming the fact that they are risk averse is something that is a fact of life to just deal with. Another interviewee noted that evaluating risk could be particularly difficult with a national fund because, generally speaking, the terms investors will give are better on a market-by-market basis, and investors get more risk-averse on a national basis. Compounding this challenge is the fact that foundations often have very specific geographic funding areas, sometimes even focused at a neighborhood level, so the effort would either have to include setting up multiple local or regional funds, or, a national fund would have to be set up that would allow for local and regional sub-funds, or “side-cars” that would be supported by the infrastructure of the national fund.

Structurally, there are challenges for PRI makers to invest in TOD. One challenge that was raised is the long-term timeframe required for investing in a land-acquisition fund, especially if the funds might not be used quickly or might be used quickly to purchase land that provides no investment income over a long period of time. Many PRI makers have a three-to-five-year investment window; after that time, they expect their capital to be repaid so that they can reinvest their funds in new projects. TOD projects can take many years from inception to completion. So either PRI makers would have to re-think their shorter-term timeframes, or, the fund would have to find creative ways of circulating money to sustain investors with shorter investment windows. A related concern that was identified was that servicing the debt on TOD investments, even at a relatively low rate of three to five percent, can be challenging with TOD projects if the land is held over time without a return. Yet, with ingenuity and a commitment to making the impossible possible, this barrier too has been addressed by professional managers of land acquisition funds (of which there are many, although none that are focused on TOD).

Finally, the idea of supporting a TOD property acquisition fund through PRIs is made more difficult for foundations because the IRS has imposed a number of restrictions on affordable housing PRIs that can be high hurdles to jump when it comes to supporting mixed income projects. Some mixed income housing projects are not fully “charitable” in the legal sense of the term. The basic safe harbor rules for an affordable housing PRI states that for each project, the organization must establish that:

- 1.) At least 75 percent of the units are occupied by residents that qualify as low-income (80% of AMI); **and,**
- 2.) Either at least 20 percent of the units are occupied by residents that also meet the very low-income limit (50% of AMI) for the area or 40 percent of the units are occupied by residents that also do not exceed 120 percent of the area’s very-low income limit.

Up to 25 percent of the units may be provided at market rates to persons who have incomes in excess of the low-income limit.²

These guidelines are the safe harbor guidelines. There are other guidelines provided by the IRS about how to determine charitability that are somewhat less stringent. Clearly, with legal counsel, experienced PRI makers have explored the boundaries laid out by the IRS. However, some PRI makers, particularly those who are more risk-averse, might be resistant to experimenting with more liberal interpretations of the regulations.

Despite these various barriers, the appetite for a national property acquisition fund to support TOD is strong within the funder community. As Christa Velasquez of the Annie E. Casey Foundation said, “It’s an interesting idea for both selfish and field building reasons. I get many requests for capital to acquire land that I am unable to support. It would be great to be able to refer those requests to one source that has capital to lend.” On a local level, there can be no doubt that funders also see the importance of having access to capital to purchase land around TOD to ensure that their priorities of creating equitable and sustainable communities are realized.

Additional Opportunities for Foundations to Support a TOD Movement

Despite the fact that foundations are primarily in the business of providing grants – or PRIs – to support the causes they care about, foundations increasingly are using a broad array of tools available to them to advance their missions. Funders who were interviewed for this paper noted a number of gaps in the TOD field that they felt foundations could help address. These gaps include:

- ❑ Bringing communities together in a region or nationally who are all working on TOD to help them learn from each other;
- ❑ Creating standardized resources and toolkits for communities working on TOD;
- ❑ Supporting field-building educational efforts around TOD by underwriting and participating in educational efforts with target audiences who can significantly impact a project’s success, including the media, engineers, and other professional associations such as planning associations, associations of elected officials, mayors, etc.;
- ❑ Supporting further education of funders by building a network of funders invested in TOD (either through partnering with existing funder networks or developing a new funder network); and
- ❑ Creating tools to help funders navigate the world of TOD and simplify PRI making for transit oriented developments.

² http://www.irs.gov/pub/irs-tege/rp_1996-32.pdf

Conclusion and Recommendations

There is considerable evidence that interest in transit oriented developments is on the rise in the United States and that they have enormous potential to improve communities when coupled with a commitment to sustainability and equity. Some in the foundation community have identified the value of TODs and have begun to explore how TOD investments can help them achieve their ambitious programmatic goals. Moving forward, there is significant potential for further foundation engagement around TOD. Specifically, there is interest in the foundation community in establishing a property acquisition fund for TODs and this idea should be explored in more depth. The barriers that were identified in this report should be tackled head-on and mechanisms should be built into the design of any such fund that will help address the barriers, whether they are real or perceived. Perhaps the biggest barrier is the concern that many funders expressed about starting something new at a time when foundations are pulling back. One way to address this concern is to create a fund while the market is down and to raise seed capital from the foundations and private and public funders who are already supportive of TOD. In this environment, a few significant and successful “pilot investments” could be made that could help build the case for future investors to support the fund, after the market returns. As the planning for the fund evolves, the merits of coupling a TOD fund with an existing land acquisition fund should be considered; a number of funders noted that there might be more support from the foundation community for a broader land-acquisition fund that would support affordable housing, mixed use developments, etc. and that would include TOD but would not be specifically designed for TOD. Finally, it would be wise to explore the ability and interest of existing funders and PRI makers who support TOD to allow other funders to co-invest with them in their efforts, since they have already developed the infrastructure and expertise around TOD. Efforts in this arena would be particularly valuable for smaller foundations who do not have the same capacity as larger foundations; however, they could also benefit larger foundations with their efforts if smaller foundations were interested in co-investments.

In many ways, the TOD community is in the early stages of creating a movement. Like all movements, money will not be the only driver of success. Education, mobilization of local communities, policy advancements, and more will be needed to support this work. Funders clearly are aware of their unique ability to help support the TOD movement through grants, PRIs and by taking a leadership role. In partnership with the growing community of TOD advocates, it seems likely that a small but growing segment of the foundation community will help pave the way for more sustainable and equitable transit oriented developments in the United States.

Appendix A: Interviews with Foundation Representatives and TOD Experts

Paul Brophy, Principal
Brophy & Reilly, LLC

Don Chen, Program Officer
Ford Foundation

Nancy Fishman, Executive Director
Grand Victoria Foundation

Heather Hood, Program Coordinator
The San Francisco Foundation

Pat Jenny, Program Director
New York Community Trust

Karen Lado, Regional Operating Officer, Western Region
Enterprise Community Partners

Eric Muschler, Program Officer
The McKnight Foundation

Arlene Rodriguez, Program Officer
The San Francisco Foundation

Nick Turner, Managing Director
Rockefeller Foundation

Christa Velasquez, Director of Social Investments
Annie E. Casey Foundation

Vanitha Venugopal, Senior Program Officer
Surdna Foundation

Roger Williams, Senior Fellow of Neighborhood Development
Annie E. Casey Foundation