LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

HOUSE COMMITTEES ON TRANSPORTATION

TESTIMONY REGARDING HB 77
RELATING TO TAXATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 2, 2009
TIME: 9AM
ROOM: 309

This legislation, among other things, exempts from Hawaii general excise tax (GET), amounts received for developing an affordable housing project or community healthcare facility within a mixed-use transit-oriented joint development project.

The Department of Taxation (Department) **opposes** this legislation.

I. CONCERN OVER TIMING.

The Department understands that development of large housing or healthcare facility projects could take several years. However, the Department is concerned that this legislation is far too premature at this point, especially since many of the planning details of the mass transit project have yet to be finalized and a project could be decades away from being complete. In the interest of ensuring that any generous tax incentive is not relied upon to the detriment of any taxpayer that relies on current information prior to the mass transit project's finalization, this legislation should be considered only after all project details have been finalized.

II. CONCERN BECAUSE GET EXEMPTIONS ALREADY EXIST

The Department is further concerned with the necessity of this legislation because very similar general excise tax exemptions already exist. For example, the general excise tax exemption for development of affordable housing is currently being administered. Though this legislation extends the current exemption to specifically apply to those projects that are within a mixed-use transit oriented joint development project, there is nothing to suggest that the current exemption could not be extended to such projects if it were determined acceptable by the housing agencies. The Department defers to the housing agencies on the viability of encouraging development of affordable housing near mixed-use mass transit oriented projects.

This bill also appears to provide that the cost of this provision be born by the State general fund, while the county surcharge, which benefits the City & County of Honolulu, remains in tact.

III. <u>THIS BILL MUST BE HELD DUE TO ITS COST.</u>

The Department is also very much concerned with the potential revenue loss for this legislation. These costs have not been factored into the Executive Budget or its fiscal priorities. Given the current economic climate, a measure such as this could erode any forward progress in solving the budget crisis.

Due to no hard data on the planned affordable rental housing projects or community health care facility projects, revenue impact is indeterminate. However, if it is assumed the gross income exempted from GET amounted to $200 million annually, then the annual revenue loss would be $8 million.

Linda Lingle
GOVERNOR

KAREN SEDDON
EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO

Statement of
Karen Seddon
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON TRANSPORTATION
February 2, 2009, 9:00 a.m.
Room 309, State Capitol

In consideration of
H.B. 77
RELATING TO TAXATION.

The HHFDC opposes H.B. 77, which, among other things, requires the certification for General Excise Tax exemptions of qualified entities providing affordable rental housing units within a mixed-use transit-oriented joint development. We defer to the Department of Taxation with respect to the merits of the tax issues raised by this bill.

Thank you for the opportunity to testify.

LINDA LINGLE
GOVERNOR OF HAWAII

CHIYOME LEINAALA FUKINO, M.D.
DIRECTOR OF HEALTH

STATE OF HAWAII
DEPARTMENT OF HEALTH
P.O. Box 3378
HONOLULU, HAWAII 96801-3378

In reply, please refer to:
File:

WRITTEN ONLY

House Committee on Transportation

HB 77, RELATING TO TAXATION

Testimony of Chiyome Leinaala Fukino, M.D.
Director of Health

February 2, 2009
9:00 AM

Department's Position: The Department of Health opposes this measure.

Fiscal Implications: Unquantified.

Purpose and Justification: This measure, among other things, asks the Department of Health to approve and certify for exemption from general excise taxes any person or firm involved with construction or substantial rehabilitation projects to provide a community health care facility within a mixed-use transit-oriented joint development project. The Department does not have the resources to assume such a new responsibility.

The Department defers to the Department of Taxation on the merits of the tax issues outlined in this bill.

Thank you for the opportunity to provide testimony.

DEPARTMENT OF PLANNING AND PERMITTING
CITY AND COUNTY OF HONOLULU
650 SOUTH KING STREET, 7TH FLOOR • HONOLULU, HAWAII 96813
PHONE: (808) 768-8000 • FAX: (808) 768-6041
DEPT. WEB SITE: www.honoluludpp.org • CITY WEB SITE: www.honolulu.gov

MUFI HANNEMANN
MAYOR

DAVID K. TANOUE
ACTING DIRECTOR

ROBERT M. SUMITOMO
DEPUTY DIRECTOR

February 2, 2009

Rep. Joseph M. Souki, Chair
and Members of the Committee on Transportation
State House of Representatives
State Capitol
Honolulu, Hawaii 96813

Dear Chair Souki and Members:

Subject: House Bill No. 77
Relating to Taxation

The Department of Planning and Permitting has **comments** on House Bill No. 77 which allows the state Department of Health and the Hawaii Housing Development and Finance Corporation to exempt certain uses from the general excise tax. The uses would still be assessed the county surcharge.

We have no objections to the bill itself, but if other bills are adopted, it may be worthwhile to defer this bill. Other bills, such as HB 617 would take a broader look at the range of appropriate state incentives for transit-oriented development. GET exemption would be one such incentive.

Thank you for the opportunity to testify.

Very truly yours,

Robert E. [signature]

for David K. Tanoue, Acting Director
Department of Planning and Permitting

DKT: jmf
hb77-kst.doc

Hawai'i Association of REALTORS®
www.hawaiirealtors.com

The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaiirealtors.com

February 2, 2009

The Honorable Joseph M. Souki, Chair
House Committee on Transportation
State Capitol, Room 309
Honolulu, Hawaii 96813

RE: H.B. 77 Relating to Taxation

Aloha Chair Souki and members of the Committee on Transportation.

On behalf of our 9,600 members in Hawai'i, the Hawai'i Association of REALTORS® (HAR) **strongly supports** H.B. 77, which exempts from General Excise Tax ("GET") a mixed use transit oriented joint development project which provides within the project affordable rental housing or a community health care facility.

The January 2008 Final Report of the Hawaii State Legislature House of Representatives Interim Task Force on Smart Growth sets forth the following ten principles of smart growth:

(1) Create a range of housing opportunities and choices;
(2) Create walkable neighborhoods;
(3) Encourage community and stakeholder collaboration;
(4) Foster distinctive, attractive communities with a strong sense of place;
(5) Make development decisions predictable, fair, and cost effective;
(6) Mix land uses;
(7) Preserve open space, farmland, natural beauty, and critical environmental areas;
(8) Provide a variety of transportation choices;
(9) Strengthen and direct development toward existing communities; and
(10) Take advantage of compact building design.

HAR believes that Smart Growth is our road map to sustaining and enhancing the quality of life in our communities and that this bill can be consistent with all of these principles.

Attached is an April 2007 Executive Summary (the "Executive Summary") of a report prepared by Reconnecting America's Center for Transit-Oriented Development entitled <u>Realizing the Potential: Expanding Housing Opportunities Near Transit,</u> which was funded by the U.S. Department of Transportation Federal Transit Administration ("FTA") and the U.S. Department of Housing and Urban Development ("HUD").

The April 11, 2007 FTA/HUD introduction letter to the Executive Summary states in part that:

> The average American family spends more than half of their income on housing and transportation. There is increasing awareness that while a growing number of families are moving further out to suburban or even exurban location to find affordable housing, the rising cost of transportation reduces much of their cost savings. As a result, demand for housing near

Hawai'i Association of REALTORS®
www.hawaiirealtors.com

The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaiirealtors.com

transit, so that transportation costs are contained, is expected to grow significantly over the next 20 years.

. . .

The report suggests that to better respond to this challenge we need to:

- Coordinate housing plans with local transportation plans, so that affordable housing is served by high quality public transportation.
- Housing investments must take place in the context of other development, such as retail and commercial [which in the case of H.B. 77 includes "community health care facilities"], so that more daily trips can be made on foot and by transit; and
- The private development market must become a partner in achieving the goal of better connections between housing – including affordable housing – and public transportation.

The Executive Summary states that one of the strategies that can be used to create and preserve mixed-income housing near transit is to provide incentives that help catalyze the market for mixed-income transit oriented development (or TOD). The Executive Summary then goes on to state that obstacles to building mixed-income TOD housing include:

- Land prices around stations are high or increase because of speculation once a new transit line is announced.
- Affordable housing developers don't have the capital to acquire land before the prices go us and then hold it until it's ready to develop.
- Funding for building affordable housing is limited.
- Mixed-income and mixed–use projects require complex financing structures.
- Sites for TOD projects often require land assembly and rezoning, which can lead to lengthy acquisition and permitting processes, which increase development costs.
- Parking requirements for TOD are unnecessarily high, which also drives up costs.
- Community opposition to density and affordable housing is hard to overcome.

The GET exemption contained in H.B. 77 directly addresses the third and forth obstacles listed above by providing a form of funding for affordable housing which has previously been used in mixed-income for sale and rental housing projects in Hawaii.

H.B. 77 also helps address the first, second and fifth obstacles listed above by essentially adopting the following two recommendations from the Executive Summary:

> Utilize FTA's joint development policy to emphasize construction of housing in transit zones; Real estate that's been acquired for rights of way, stations, parking lots and staging areas, and even air rights, can provide significant development opportunity. FTA's new joint development policy provides

Hawai'i Association of REALTORS®
www.hawaiirealtors.com

The REALTOR® Building
1136 12th Avenue, Suite 220
Honolulu, Hawaii 96816

Phone: (808) 733-7060
Fax: (808) 737-4977
Neighbor Islands: (888) 737-9070
Email: har@hawaiirealtors.com

unprecedented flexibility for leasing and even selling this property for transit-supportive purposes.

Encourage public-private partnerships: Engaging the community as a full partner makes it possible to build trust and achieve community goals. Partnering with developers, realtors and businesses may also leverage private dollars.

HAR looks forward to working with our state lawmakers in building better communities by supporting quality growth, seeking sustainable economies and housing opportunities, embracing the cultural and environmental qualities we cherish, and protecting the rights of property owners.

Mahalo for the opportunity to testify.

Attachment

Realizing the Potential:
Expanding Housing Opportunities Near Transit

Executive Summary

Reconnecting America's Center for
Transit-Oriented Development

April 2007

About this Report

REALIZING THE POTENTIAL: Expanding Housing Opportunities Near Transit was written by Reconnecting America's Center for Transit-Oriented Development. The Center for TOD is the only national nonprofit effort dedicated to providing best practices, research and tools to support market-based transit-oriented development. We partner with both the public and private sectors to strategize about ways to encourage the development of high-performing TOD projects around transit stations and to build transit systems that maximize the development potential. The Center for TOD is a partnership of the national nonprofit Reconnecting America, the Center for Neighborhood Technology, and Strategic Economics, an urban economics firm in Berkeley.

To read the full report -- including detailed case studies of efforts to promote mixed-income TOD in Boston, Charlotte, Denver, Minneapolis and Portland – visit **www.reconnectingamerica.org.**

Acknowledgements

The Center for Transit-Oriented Development would like to thank the U.S. Department of Housing and Urban Development (HUD) and the Federal Transit Administration (FTA), U.S. Department of Transportation, for their financial and technical support.

U.S. Department
of Transportation
**Federal Transit
Administration**

April 11, 2007

Dear Colleague:

It is with great pleasure that we introduce this report on the potential for accommodating housing – including affordable housing – near public transportation.

The average American family spends more than half of their income on housing and transportation. There is increasing awareness that while a growing number of families are moving further out to suburban or even exurban locations to find affordable housing, the rising cost of transportation reduces much of their cost savings. As a result, demand for housing near transit, so that transportation costs are contained, is expected to grow significantly over the next 20 years.

The non-profit research organization, Reconnecting America's Center for Transit-Oriented Development, has examined five transit corridors in Boston, Charlotte, Denver, Minneapolis-St. Paul, and Portland (Oregon). Their findings show that we face a significant challenge in the coming years. How do we make room for the households of tomorrow at a scale and affordability necessary to meet the demand? The five corridors in this report showed that while programs and incentives exist to encourage construction of affordable housing near transit, more needs to be done to truly meet the demand.

The report suggests that to better respond to this challenge we need to:

- Coordinate housing plans with local transportation plans, so that affordable housing is served by high quality public transportation;
- Housing investments must take place in the context of other development, such as retail and commercial, so that more daily trips can be made on foot and by transit; and
- The private development market must become a partner in achieving the goal of better connections between housing – including affordable housing – and public transportation.

We hope you will read this report with an eye to discovering opportunities in your own communities to create attractive, vibrant neighborhoods that both lower transportation costs and increase affordable housing options for all of their residents.

Sincerely,

James S. Simpson

James S. Simpson
Administrator
Federal Transit Administration

Darlene F. Williams

Darlene F. Williams
Assistant Secretary for Policy
Development and Research
U.S. Department of Housing and
Urban Development

Overview

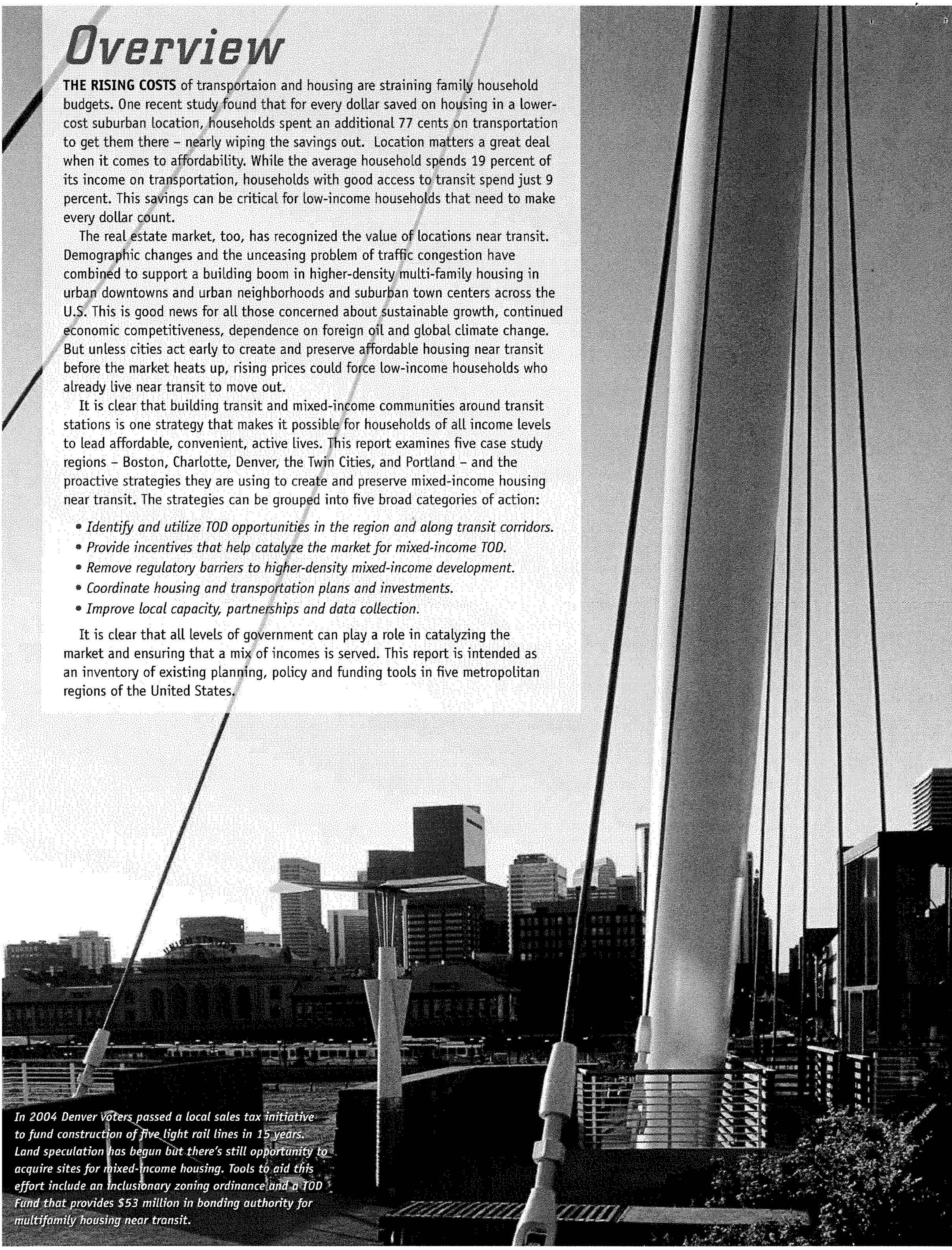
THE RISING COSTS of transportaion and housing are straining family household budgets. One recent study found that for every dollar saved on housing in a lower-cost suburban location, households spent an additional 77 cents on transportation to get them there – nearly wiping the savings out. Location matters a great deal when it comes to affordability. While the average household spends 19 percent of its income on transportation, households with good access to transit spend just 9 percent. This savings can be critical for low-income households that need to make every dollar count.

The real estate market, too, has recognized the value of locations near transit. Demographic changes and the unceasing problem of traffic congestion have combined to support a building boom in higher-density multi-family housing in urban downtowns and urban neighborhoods and suburban town centers across the U.S. This is good news for all those concerned about sustainable growth, continued economic competitiveness, dependence on foreign oil and global climate change. But unless cities act early to create and preserve affordable housing near transit before the market heats up, rising prices could force low-income households who already live near transit to move out.

It is clear that building transit and mixed-income communities around transit stations is one strategy that makes it possible for households of all income levels to lead affordable, convenient, active lives. This report examines five case study regions – Boston, Charlotte, Denver, the Twin Cities, and Portland – and the proactive strategies they are using to create and preserve mixed-income housing near transit. The strategies can be grouped into five broad categories of action:

- *Identify and utilize TOD opportunities in the region and along transit corridors.*
- *Provide incentives that help catalyze the market for mixed-income TOD.*
- *Remove regulatory barriers to higher-density mixed-income development.*
- *Coordinate housing and transportation plans and investments.*
- *Improve local capacity, partnerships and data collection.*

It is clear that all levels of government can play a role in catalyzing the market and ensuring that a mix of incomes is served. This report is intended as an inventory of existing planning, policy and funding tools in five metropolitan regions of the United States.

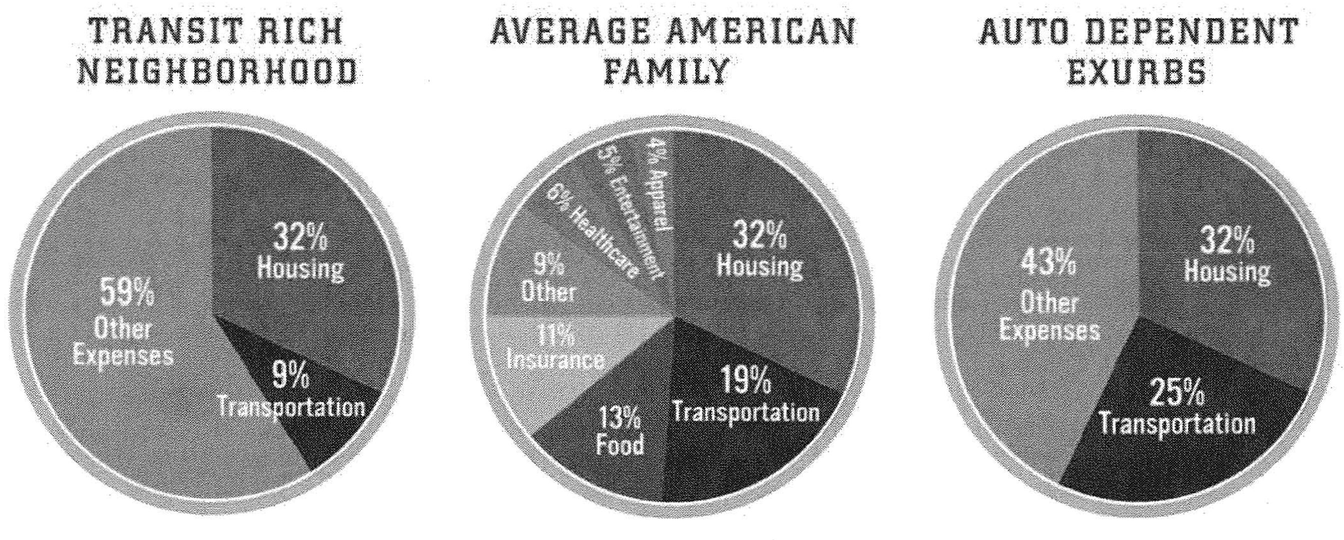


In 2004 Denver voters passed a local sales tax initiative to fund construction of five light rail lines in 15 years. Land speculation has begun but there's still opportunity to acquire sites for mixed-income housing. Tools to aid this effort include an inclusionary zoning ordinance and a TOD Fund that provides $53 million in bonding authority for multifamily housing near transit.

Building Housing Near Transit as an Affordability Strategy:

The Opportunity and the Challenge

THE HOUSING MARKET in the U.S. has been changing as American households get older, smaller and more diverse, and traffic makes long commutes to the suburbs less and less appealing. Meanwhile, both housing and transportation costs are on the increase. One in three American households now spends more than 30 percent of income on housing, and one in seven spends more than 50 percent. While finding a lower-cost house in the suburbs used to be a strategy that resulted in savings, recent studies show the increased cost of transportation nearly wipes that savings out. A Center for Housing Policy study in 2005 quantified the trade-off, concluding that for every dollar a working family saved on housing it spent 77 cents more on transportation.



While the average family spends 19 percent of the household budget on transportation, and households in auto-dependent neighborhoods spend 25 percent, households with good access to transit spend just 9 percent. This savings can be critical for low-income households.
Source: Center for TOD + Transportaion Affordibility Index, 2004 Bureau of Labor Statistics

These trends are happening concurrent with a resurgence of interest in public transportation: The American Public Transportation Association says transit ridership is up 25 percent since 1995. There has been a concurrent transit building boom across the country, with more than 700 new stations under development for a total of more than 4,000 stations. Add to this the fact that urban neighborhoods, especially downtowns, have been recognized as an important new market for infill housing and mixed-use development. The result is an opportunity unprecedented in recent history for making it possible for families to reduce household expenditures by choosing to live in neighborhoods with lower transportation costs because they are located near transit.

Location matters a great deal. While the average family spends roughly 19 percent of the household budget on transportation, households with good access to transit spend just 9 percent. This savings can be critical for lower-income households that need to make every dollar count because transportation costs as a percentage of the total household budget varies greatly according to income: Transportation costs consume an average of 9 percent of the household budget for high-income families, but for very-low-income families transportation costs can consume 55 percent of the budget or more.

Developing housing near transit can be an affordability strategy that helps families offset the increasing costs of both housing and transportation, which now consumes an average of 57 percent of household income. For all the reasons cited above – traffic, housing and transportation costs, and demographic changes – there has been increasing interest in transit-oriented development (TOD). Developers are interested because they know urban markets are hot, and sites near transit usually permit the higher densities and lower parking ratios that make these infill projects pencil out. Transit agencies are interested because they know TOD makes transit convenient and boosts ridership. Cities are interested because they see that TOD can spark economic development that provides value and benefits to both new and existing residents, thus raising the tax base. Renters and buyers are interested because they are looking for convenience, affordability, and the amenities they can find in downtowns, urban neighborhoods and suburban town centers.

The Center for Transit-Oriented Development has estimated the demand for housing near transit to increase to almost 16 million U.S. households by the year 2030, roughly a quarter of all renters and buyers. While married couples with children made up the vast majority of households after WWII, boosting interest in the detached single-family home in the suburbs and the automobile, single adults will soon comprise the new majority, and they are interested in a different lifestyle. All the demographic groups that are increasing in size in this country – older, smaller households and singles, and non-white households – are the same groups that have historically preferred urban living and that do use transit.

Transit-oriented development is typically understood to be a higher-density mixed-use single project adjacent to a transit station, but it needs to be understood as something more: the creation of a neighborhood or district comprised of several projects and a rich mix of uses in an environment that promotes walking and transportation choices. These transit-oriented districts can be around heavy rail, light rail, streetcars or even bus, and they can be in either urban or suburban locations. The goal is to make it possible for residents to live convenient, affordable, active lives by providing multiple housing and transportation choices including access to regional transit.

But as the market for transit-oriented development heats up and these neighborhoods prove popular with renters and buyers, there is an increasing need and challenge to ensure that development includes housing for all income levels. This is due in part to the fact that cities and transit agencies may not understand the importance of development near stations. Few tools exist to direct affordable housing to neighborhoods with transit service. Existing planning and zoning often limit the development potential of station areas, such as with single-use zoning, parking minimums, and so on. Moreover, there isn't much available land or many ready-to-go development sites. The result is that this kind of infill development is time-consuming and expensive to build, which causes developers to build to the high end of the housing market.

Obstacles to building mixed-income TOD housing include:

- *Land prices around stations are high or increase because of speculation once a new transit line is announced.*

- *Affordable housing developers don't have the capital to acquire land before the prices go up and then hold it until it's ready to develop.*

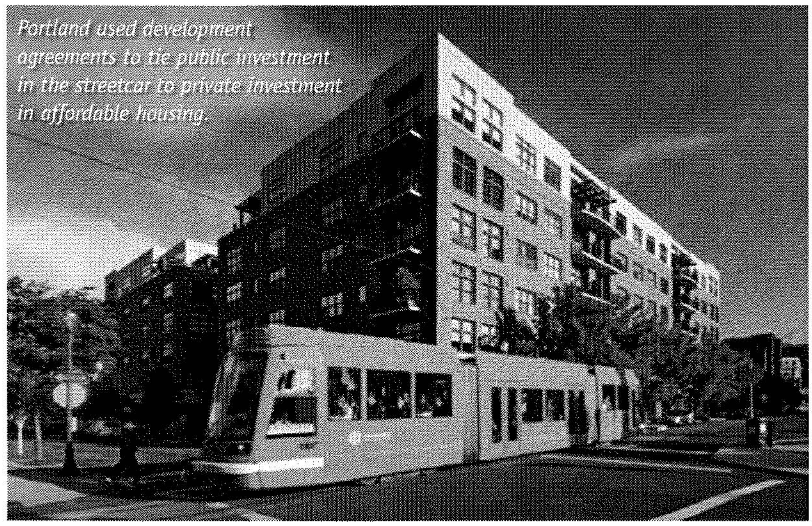
- *Funding for building affordable housing is limited.*

- *Mixed-income and mixed-use projects require complex financing structures.*

- *Sites for TOD projects often require land assembly and rezoning, which can lead to lengthy acquisition and permitting processes, which increase development costs.*

- *Parking requirements for TOD are unnecessarily high, which also drives up costs.*

- *Community opposition to density and affordable housing is hard to overcome.*



Portland used development agreements to tie public investment in the streetcar to private investment in affordable housing.

The national TOD market demand estimate cited above shows that 51 percent of the demand for housing near transit is likely to come from households with incomes below the area median income, roughly $50,000. These are the households that are also most likely to need assistance in finding housing that is affordable. Considerable demand will also come from moderate-income singles and couples without children making $60,000 to $125,000. These are also the household types that are most likely to use transit -- which helps to fully realize the benefit of building housing near transit.

A recent report funded by the Ford Foundation finds that neighborhoods in the half-mile radius around transit already support more racial and economic diversity than the average census tract, and that they are home to a greater share of a region's lower-income households.[1] The data also shows that in three-quarters of these "transit zones" – defined here as the half-mile radius around stations -- households have one car or no cars. This low-rate of auto ownership indicates that residents do realize the cost-savings that comes from lower auto ownership. But as the demand increases and the market heats up for land and housing in these neighborhoods, the threats of gentrification and displacement of lower-income households are very real.

One way to ease these pressures and keep rents and home prices down is to increase the overall supply of transit-oriented development. If more mixed-income housing is built near transit, gentrification pressures in desirable neighborhoods could lessen. Otherwise this will be an enormous missed opportunity to use the market to help address the nation's growing affordability crisis by tackling the escalating cost of both housing and transportation at the same time. This strategy may provide the additional benefits of addressing the problem of traffic congestion, and expanding access to jobs, educational opportunities and prosperity.

In order to better understand how these opportunities and challenges are playing out in different regions, and the effectiveness of strategies to ensure there is mixed-income housing near transit, this report examines five case study regions. Advancing the state of the practice of linking mixed-income housing to transit investments requires greater creativity and commitment by all levels of government. The funding strategies and tools that have been developed in the case study regions, and the leadership that has emerged, is encouraging. But there is so much potential demand for housing near transit, and so few developable sites, that cities and regions need to be proactive in order to accommodate income diversity in TOD. This will help ensure that as this country moves through the ups and downs of real estate market cycles people of diverse incomes will be able to take advantage of the public investment in transit.

Lessons Learned in the Case Study Corridors and Regions

THE FIVE METROPOLITAN REGIONS chosen as case studies – Boston, Charlotte, Denver, the Twin Cities, Portland – vary in size, the extent and maturity of their transit systems, and the strength of their housing markets. These factors affect the degree to which TOD can serve as an organizing framework for growth, and whether a significant number of households can benefit from reduced transportation expenditures. Table A provides comparisons among the regions in terms of the number of households in transit zones, incomes, housing costs and potential future demand for housing near transit.

While significant variation exists, there are also similarities. Each region can be characterized as a "warm" or "hot" housing market where rising prices are outpacing increases in income. All the regions are investing in transit and promoting TOD. Different challenges and opportunities exist for a region like Boston, with its well-established densely populated urban neighborhoods and mature 288-station system, than for Denver, which has a small, relatively new system that is being rapidly expanded, and which has fast-growing auto-dependent suburban communities.

For some regions, such as Portland, where there is strong coordination of transportation investments and land use decisions by all levels of government, billions of private sector dollars have been invested in mixed-income development along its streetcar system. In Boston, in contrast, the State has taken an incentive-based approach to increasing housing production, particularly in areas served by transit. Charlotte is a fast-growing metro region where the local government has taken leadership in crafting a strategy for reinvigorating the city and curbing sprawl by channeling growth and investment along a transit system that has yet to be built. Denver and the Twin Cities, while different, are both rediscovering the power of their new systems to shape development and to link regional destinations.

Among the case study regions transportation and housing costs vary significantly by income and by region. But in all regions the average cost of housing is less than 30 percent – the standard for affordability -- for all households. While there is no recognized standard of transportation affordability, on average American households spend 19 percent, the second highest household expense after housing. Using a transportation model developed for a previous study, combined

Table A compares the case study regions in terms of the number of households in transit zones, transit system size and maturity, median income, housing costs, and potential future demand for housing near transit.

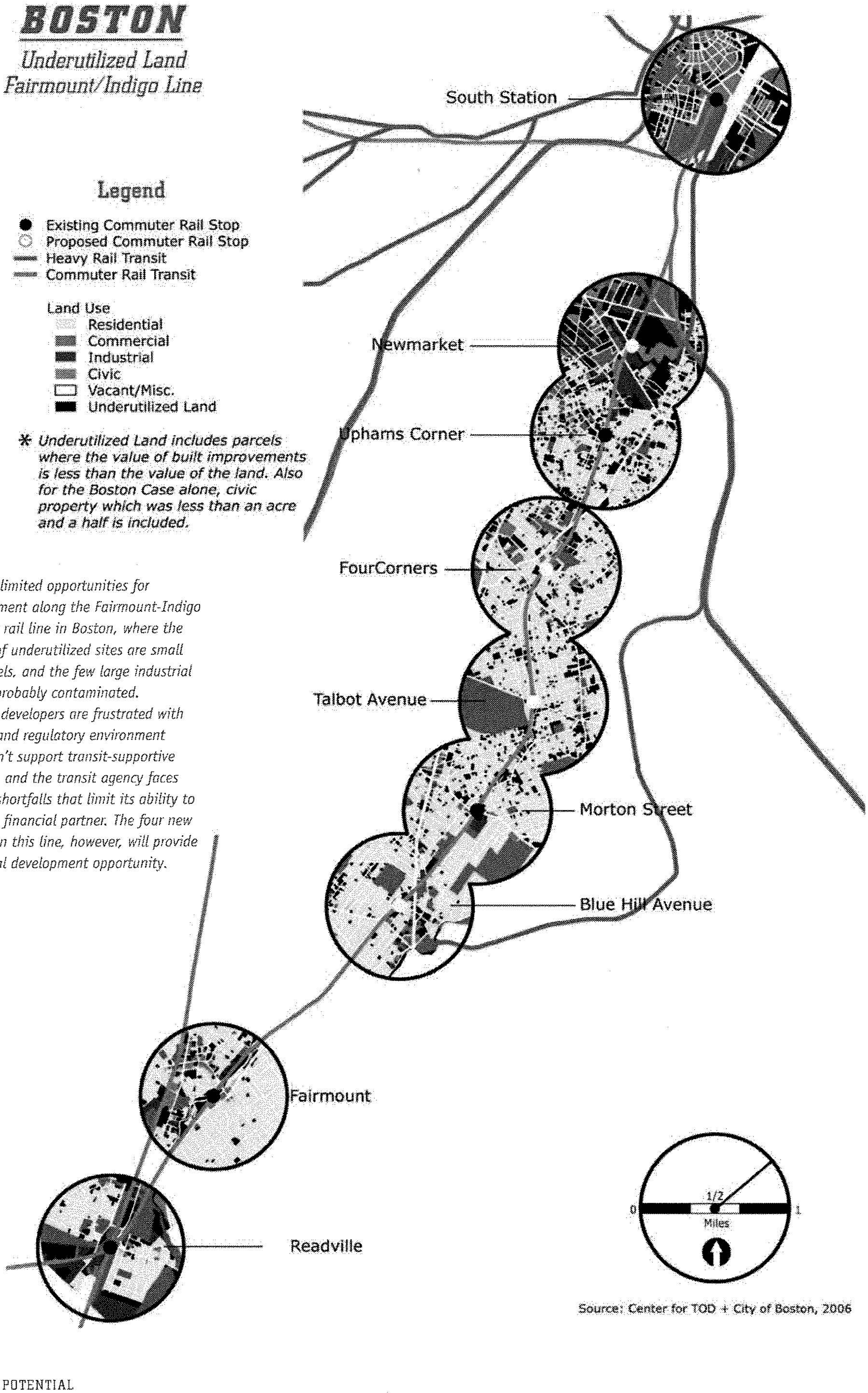
TABLE A: COMPARISON OF SELECTED CASE STUDY REGIONS

Transit Region	Number of Households in 2000 Region (Transit Zones)	Year Regional Service Began	System Size In 2005 (Stations)	2000 Median Income Region (Transit Zones)	Increase in Median Home Values + 2000-2005 [1] Adjusted	Households paying 35% or more for Housing [2]	Percentage of Region's Housing built 2000 or later	2030 Demand TOD from Households earning < $50K	Projected Household TOD Demand in 2080 [3]
Boston	1,785,552 (413,528.00)	1855	Extensive (288)	$51,727 (48,308.00)	81%	38%	3.90%	47% 509,219	1,072,309
Charlotte	575,293 (3,777.00)	2007	Small Exp. (10)	$46,120 (40,715.00)	8%	35%	17.20%	62% 54,101	87,097
Denver	939,971 (17,373.00)	1994	Small (24)	$51,760 (31,839.00)	18%	38%	12.60%	54% 83,594	155,076
Twin Cities	1,136,615 (17,870.00)	2004	Small Exp. (17)	$54,317 ($30,613*)	48%	38%	10.10%	49% 54,187	110,906
Portland	741,778 (73,911.00)	1986	Large (108)	$47,061 (34,899.00)	22%	40%	10.50%	51% 156,802	308,644
U.S.**	N/A	N/A	N/A	$41,994	24%	21%	8.40%	51% 8,165,322	16,007,245

* for owned housing units with a mortgage | ** Total TOD Demand refers to 41 transit regions only | **1.** U.S. Census Bureau, 2005 American Community Survey. Selected Household Characteristics. 2005. | **2.** Center for Center for Transit Oriented Development. Preserving and Promoting Diversity Near Transit. December 2006. | **3.** Center for Transit-Oriented-Development. Hidden in Plain Sight: Capturing the Demand for Housing Near Transit. Reconnecting America: April 2005 (2030 update, forthcoming Spring 2007) Source: Center for Transit-Oriented-Development. 2000 Census Data and National TOD Database

BOSTON

Underutilized Land
Fairmount/Indigo Line



There are limited opportunities for redevelopment along the Fairmount-Indigo commuter rail line in Boston, where the majority of underutilized sites are small infill parcels, and the few large industrial sites are probably contaminated. Moreover, developers are frustrated with a zoning and regulatory environment that doesn't support transit-supportive land uses, and the transit agency faces financial shortfalls that limit its ability to serve as a financial partner. The four new stations on this line, however, will provide substantial development opportunity.

transportation and housing costs account for an estimated average of 47 percent of household budgets for households in four of the case study regions.[2] The Twin Cities region has the lowest housing and transportation costs, whereas Boston and Portland are on the higher end.

In each of the case study regions the study focused on a single transportation corridor in order to take a closer look at how different transit technologies – light rail versus heavy rail versus streetcars, for example – affect the housing market, transit ridership (which affects total household costs), and gentrification and displacement. The case studies show there is no single-most-effective approach to promoting mixed-income housing but there are important models that could be applicable in many communities.

BOSTON

TRANSIT CORRIDOR:
Fairmount-Indigo Line, a 9-mile commuter rail corridor with 5 stops and 4 new stations proposed; service began in 1896

RIDERSHIP:
2,400/day

RESIDENTS IN TRANSIT ZONES (TZ):
88,881 residents, 30,169 households

DENSITY:
8 dwelling units per acre

MEDIAN INCOME, 1999:
$35,252 in TZ, $52,792 in region

The Housing Market

The Boston region is a hot housing market, and almost half the housing stock is single-family -- a high percentage in one of the nation's highest-priced markets. Home values increased 81 percent to $394,800 from 2000 to 2005, and rising prices are blamed for continued population decline in the region.

The Case Study Corridor

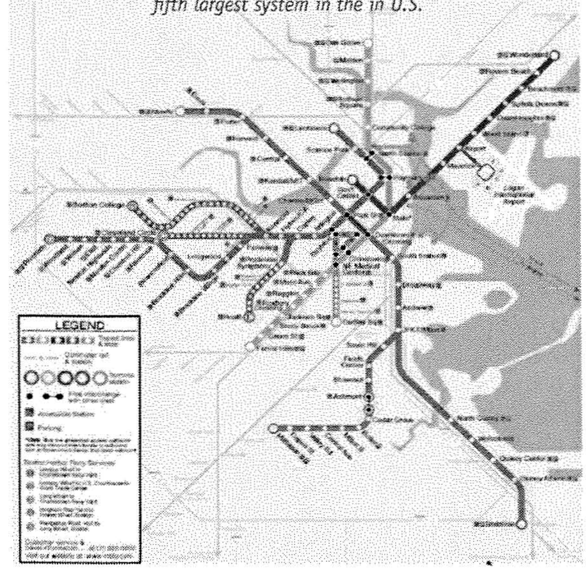
The Fairmount/Indigo Line runs through low- and mixed-income communities. The number of stations was decreased from 11 to 5 in the 1970s as the white population moved out and ridership declined. The Massachusetts Bay Transportation Authority (MBTA) now plans to build four new stations and make other infrastructure improvements. MBTA operates 20 rail lines with 288 stations. Less than 10 percent of residents commute by transit, which is more than double the national average of 4.6 percent but below the average of 35 percent for metro regions with populations of more than 5 million.

Local Policy and Funding

Massachusetts is a national leader in promoting mixed-income TOD. There is better coordination at all levels of government than in any other case study region, even though home rule restrictions limit local decision-making power. The city and commonwealth both share the goal of increasing housing production, maintaining neighborhood stability, and promoting development near transit. The commonwealth has created a $30 million TOD Infrastructure and Housing Support program, and new smart growth housing laws provide financial incentives for more compact housing. MBTA has an extensive inventory of land and air rights at stations, and partners with MassHousing, a State agency that works to increase affordable housing, to provide technical assistance and resources. MassHousing provides $100 million for mixed-income housing projects, with specific funds set aside for affordable projects near transit.

There are limited redevelopment opportunities in the Fairmount/Indigo corridor, as the majority of underutilized sites are small, infill parcels, and the few large industrial sites are probably contaminated. While new stations could stimulate development of up to 5,000 new housing units this would fall far short of the projected demand. Moreover, developers are frustrated with the zoning and regulatory environment and it is clear that zoning is needed that mandates transit-supportive land uses. Developers lack certainty about what kind and how much development will be permitted, which adds time and cost to projects. MBTA, meanwhile, faces financial shortfalls limiting the agency's ability to help out as a financial partner.

Boston's mass transit system is recognized as one of the region's most undervalued assets. With more than 300 stations, it's the fifth largest system in the in U.S.



But the size of the transit system is recognized as one of the region's most undervalued assets, and new stations will provide substantial development opportunity. Several well-established community development corporations CDCs are leading the campaign to improve the line and create mixed-income projects, and they are able to secure funding, leverage assets, and engage the community. Moreover, the corridor hasn't seen much market-rate development, and now that the housing market has softened, affordable housing developers have been working with the MBTA, the State and the city to secure properties.

Lessons Learned

* *The State can be a powerful TOD partner: Creating a Statewide TOD framework encourages greater regional coordination and levels the playing field between cities and suburbs. Strong Brownfield legislation also provides funding and liability protection for non-responsible parties, and allows for-profit and nonprofit entities to access assumable tax credits for redevelopment projects.*
* *CDCs can play a critical role, especially with small sites: CDCs have a community base and access to outside funding, and their organizing experience can help allay concerns about density, traffic and gentrification. CDCs should be included in planning initiatives and given access to public resources and technical assistance.*
* *Create flexible affordable housing funds: CDCs are used to assembling a patchwork quilt of funding sources – each with different requirements and timeframes – for a single project. Government should make these funds more flexible and accessible with limited application and reporting requirements.*

CHARLOTTE

TRANSIT CORRIDOR:
9-miles of light rail with 15 stations; service to begin in 2007

RIDERSHIP:
estimated to be 9,100/day

RESIDENTS IN TRANSIT ZONES (TZ):
21,063 residents, 9,406 households

DENSITY:
6.7 dwelling units per acre

MEDIAN INCOME, 1999:
$39,388 in TZ, $46,119 in region

The Housing Market

Charlotte's sprawling, moderately priced housing market is growing rapidly: 66 percent of homes are single family, with more than 17 percent built after 2000. This rapid increase in housing production appears to be constraining prices. From 2000 to 2005 prices increased just 8 percent to $150,900, compared to a national average of 24 percent. The region is one of the nation's fastest growing, and is expected to grow 57 percent to 848,539 households, 10 percent of which can be expected to want to live near transit.

The Case Study Corridor

The case study focuses on the South Corridor light rail line, scheduled to begin operation in 2007, which will connect Charlotte's Uptown neighborhood to suburban Pineville. Existing housing stock along the line is low-density.

Local Policy and Funding

The city and Mecklenburg County share jurisdiction, and the city manages the Charlotte Area Transportation System (CATS), which has enhanced the coordination of transportation and land use planning and initiatives. The city approved a comprehensive land use plan in 1998 to manage the region's rapid growth by coordinating development with transit, and five new light rail lines and a modern streetcar line are planned. At present there is only a bus system, which carries a relatively low percentage (1 percent) of commuters.

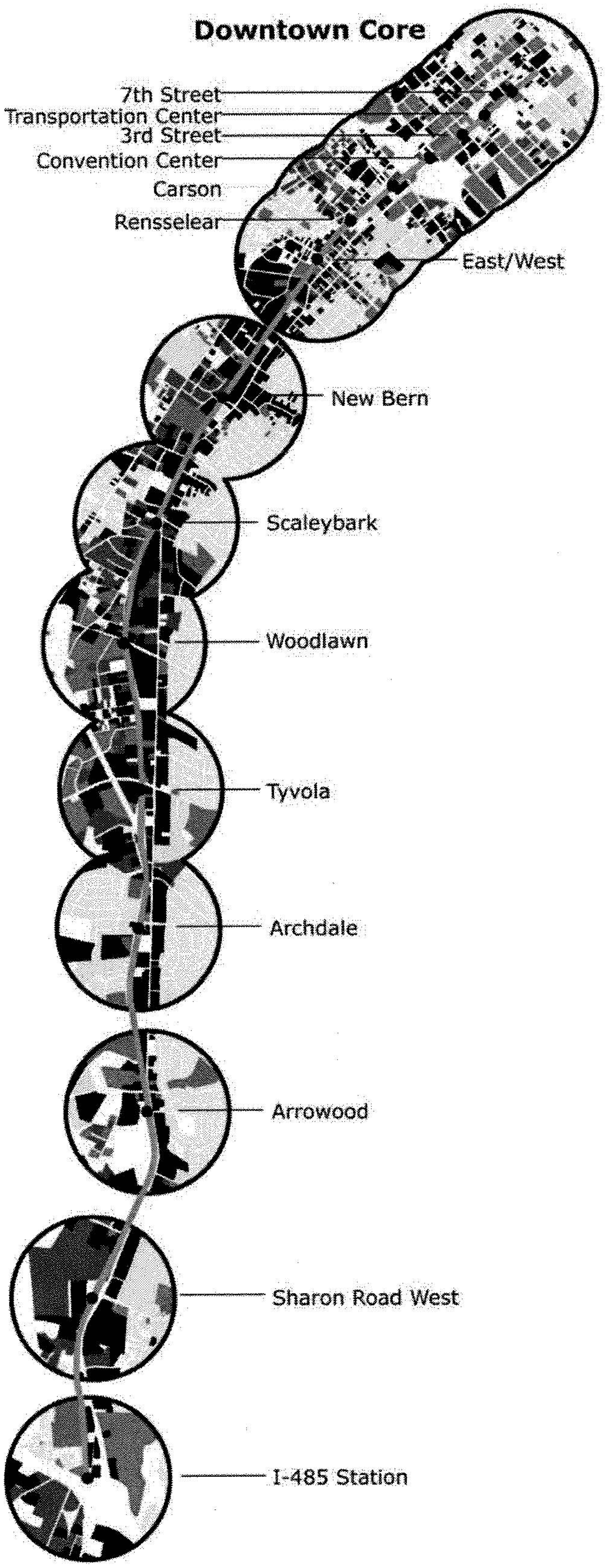
The comprehensive plan laid out a process for planning and implementing land use regulations and infrastructure improvements. Walking areas have been defined for the half-mile radius around stations, and station area plans, transit-supportive zoning, and "pedscapes" have been adopted in some neighborhoods. The city developed transit-supportive overlays to begin transitioning other station areas to appropriate land uses, and is improving sidewalks, bike paths, medians, park and ride lots, and drainage around stations.

The city has created a TOD Response Team to assist developers in obtaining entitlements, necessary public improvements and financial assistance. The Charlotte-Mecklenburg Planning Commission has also been proactive with site-specific re-zonings for TOD in areas where station area plans have not been adopted. A South Corridor Land Acquisition Fund was created to enable public assembly of key opportunity sites, a critical tool for creating development opportunities at a scale that can be profitable and transformative.

Charlotte has created a TOD Response Team to assist developers in obtaining entitlements, necessary public improvements and financial assistance.

CHARLOTTE

Underutilized Land
South Corridor/Blue Line



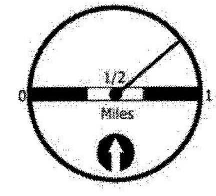
Legend

- ● Proposed Light Rail Stop
- — Light Rail Transit (Under Construction)

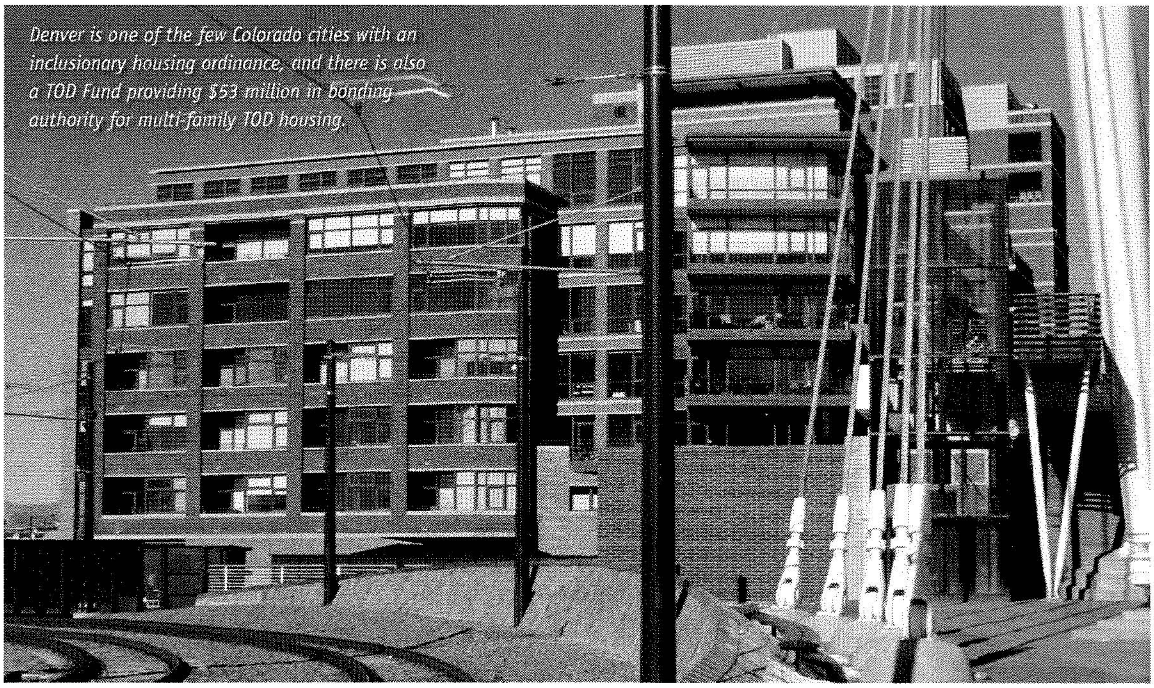
Land Use
- Residential
- Commercial
- Industrial
- Civic
- Vacant/Misc.
- Open Space
- Underutilized Land

✱ Underutilized Land includes parcels where the value of built improvements is less than the value of the land

Unlike the Fairmount-Indigo line in Boston, Charlotte's South Corridor light rail line has many large, underutilized commercial and industrial properties around stations. Siting a line where there is this much potential for development and creating plans and tools to create and preserve income diversity will be a potent combination. However, transforming these neighborhoods into walkable, multimodal, mixed-use places will take time and require significant investments to improve connectivity, safety and neighborhood character.



Source: Center for TOD+ Mecklenburg County, 2006



Denver is one of the few Colorado cities with an inclusionary housing ordinance, and there is also a TOD Fund providing $53 million in bonding authority for multi-family TOD housing.

The city, county and CATS are all working to link affordable housing to TOD, but it's too early to assess their efforts. A fair-share housing policy limits the number of subsidized units to 10 percent in any "neighborhood statistical area," but an exception has been made allowing for 20 percent within a quarter mile of stations. The city and county are providing gap financing to help proposed projects score better in the competition for State affordable housing funds. But South Corridor neighborhoods are higher-income than those along the Fairmount/Indigo line in Boston, with its long history of CDC involvement and support for affordable housing, and they don't view affordable housing as an asset.

Transforming neighborhoods along the South Corridor into walkable, multi-modal, mixed-use places will take time and require significant investments to improve connectivity, safety and neighborhood character. These improvements could pull some of the momentum of the downtown housing market south along the corridor, but could also tap out funding otherwise available for affordable housing. The Uptown and South End neighborhoods – where stations will be built -- are complex urban environments with many uses, street networks and physical character. There are many large and underutilized industrial and commercial sites that will provide significant redevelopment opportunities. The city needs to preserve some commercial uses, however, to maintain a diverse and healthy economy.

The Charlotte light rail corridor is different from the other case study corridors in that there are so many large underutilized commercial and industrial properties around stations. The transit investment has the potential to catalyze new development -- residential development in particular -- on a scale that could transform the character and livability of these neighborhoods. Siting a transit line where there is a high potential for transit-supportive development, and then creating plans and tools intended to create and preserve income diversity will be a potent combination that can be adopted and adapted by other communities.

Lessons Learned

- *Plan for success with TOD-supportive zoning and public improvements: All the public partners have worked hard to create an integrated policy framework to support TOD and mixed-income housing using station area plans, zoning updates, the identification of critical infrastructure improvements, and a revision of the city's affordable housing policy.*
- *Planned growth corridors like the South Corridor require comprehensive implementation tools: The city and its partners have created important tools, including the voter-approved $50 million infrastructure bond to fund improvements in the corridor and the land acquisition fund; the TOD Response Team with dedicated staff; and a joint development program.*

DENVER

TRANSIT CORRIDOR:
West Corridor 12.1-mile light rail line with 11 stations; service to begin 2013

RIDERSHIP:
estimated to be 31,100/day in 2025

RESIDENTS IN TRANSIT ZONES (TZ):
37,868 residents, 14,389 households

DENSITY:
9.6 dwelling units per acre

MEDIAN INCOME, 1999:
$35,764 in TZ, $51,088 in region

The Housing Market

The Denver region is a moderately growing housing market; 60 percent of homes are single-family, similar to the national average, with 12.6 percent built in 2000 or later. The increase in housing production is consistent with population growth.

Housing prices rose 18 percent, more slowly than the average national increase, to $239,500 from 2000 to 2005. The region's population is expected to grow 57 percent from 1 million households in 2000 to 1.5 million in 2030, with 10 percent expected to want housing near transit.

The Case Study Corridor

In 2004 Denver voters passed the FasTracks initiative dedicating a half-cent sales tax to construction of five new rail lines in 15 years, a $4.7 billion investment. In 2000, 5 percent of work trips were by transit. The West Corridor light rail line was chosen as the case study. It will connect downtown with many regional destinations and existing bus and rail service. Land uses are primarily commercial and civic, including the Jefferson County Government Center, Federal Center, and four colleges, and it is built-out with residential and commercial uses.

Redevelopment opportunities will depend on the availability of underutilized properties and "greyfields." Significant opportunity exists for reinvestment in established housing stock, however, and two station areas include distressed public housing projects. There are concerns about displacement of lower-income households as a result of the redevelopment.

Local Policy and Funding

Planning and rezoning efforts are underway, and pedestrian linkages are being examined. The transit agency sponsored a planning charette to better understand how the location and design of stations could catalyze or inhibit development. The region is also developing tools and incentives for housing along transit corridors, and together with the transit agency is providing technical assistance and other support to local governments for station area planning.

Denver is one of the few cities in Colorado with an inclusionary zoning ordinance, but it only pertains to new homeownership units and households with 80-95 percent of area median income, limiting the depth of affordability. Units must remain affordable for just 15 years, also limiting long-term affordability. However, the Metro Mayors Caucus and Colorado Housing and Finance Authority have created a TOD Fund that provides $53 million in bonding authority to finance the construction, acquisition and rehab of multifamily TOD housing near transit.

The West Corridor includes a high percentage of low-income households, so assuring long-term affordability and access to transit is important. At the same time, realizing the full potential for transit-oriented development in the corridor will require addressing the challenges of concentrated poverty. There are presently three distressed public housing sites located within walking distance of proposed transit stops and the crime and disinvestment of these properties is likely to act as a disincentive to private developers. Without targeted strategies to preserve their housing options, these low-income households will probably be displaced as the corridor develops, given that the line connects to downtown and so many regional destinations.

Because the line won't open for six years, the market has yet to respond. Land speculation has begun, but there's still an opportunity for the community to acquire sites for mixed-income housing. Given high land prices, however, residential density will be necessary to make projects pencil out and this will translate into significant infrastructure costs: Upgrading sewer lines can be expensive, for example, especially in older communities. Affordable housing developers can rarely take on these financial burdens.

Lessons Learned

- *Voters support transit and TOD: Fastracks sent the powerful message that it's possible to generate broad regional support for local transit, and the scale of this initiative has attracted national developers.*
- *Don't underestimate the potential for land speculation: It is a formidable obstacle to affordability. Acquiring and holding land requires considerable capital and is beyond the means of most developers. Furthermore, many traditional funding sources for affordable housing cannot be used to purchase land. Regions with ambitious transit expansion plans may want to help public and private actors acquire and hold land in tandem with the siting of lines and stations.*
- *Develop housing transition strategies for distressed areas: The station just west of downtown includes two of the public housing projects and 125 acres of underutilized land with strong redevelopment potential. The city could help rebuild these projects as mixed-income housing, and set goals for relocating the balance of affordable units (a mixed-income development is unlikely to replace all of the existing low-income residences). The city and county should lead a planning effort that brings stakeholders together around a compelling vision.*

THE TWIN CITIES

TRANSIT CORRIDOR:
Hiawatha Corridor 12-mile light rail line with 17 stops; service began in 2004

RIDERSHIP:
estimated to be 31,000/day in 2006

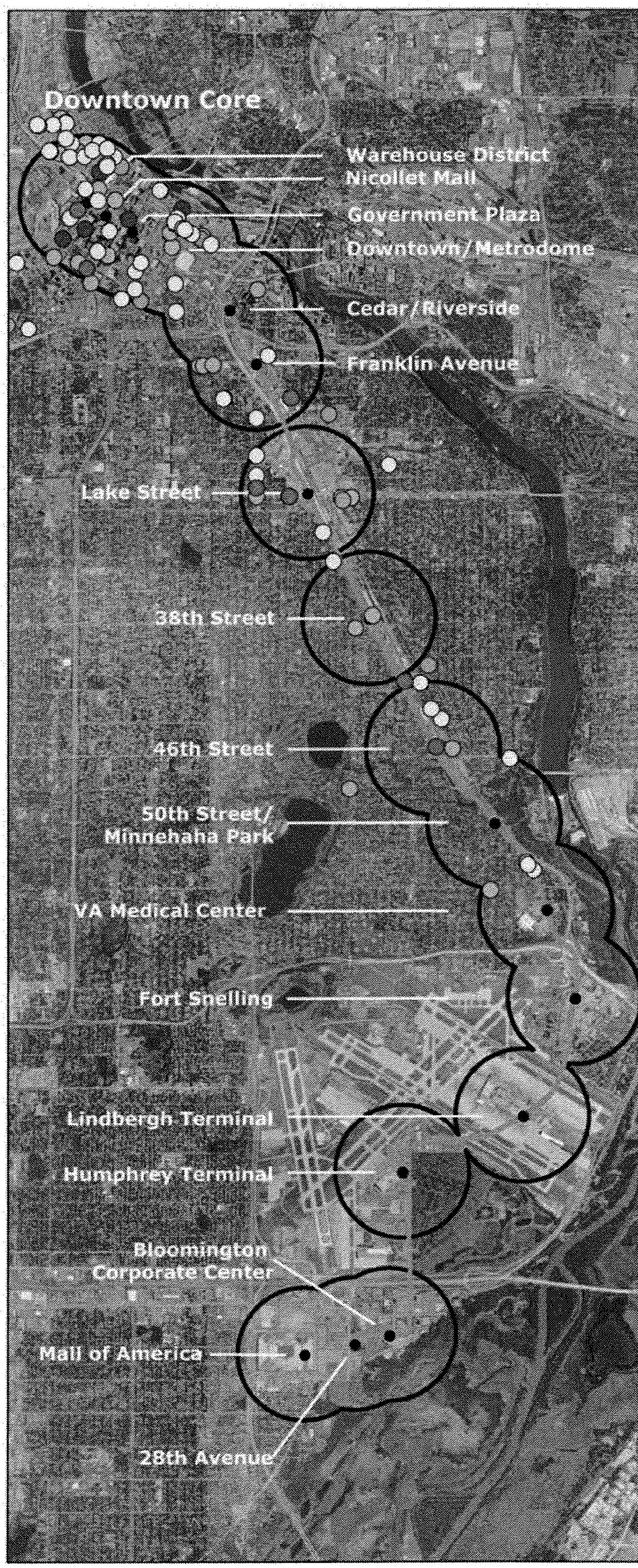
RESIDENTS IN TRANSIT ZONES (TZ):
42,377 residents, 17,870 households

DENSITY:
18 dwelling units per acre

MEDIAN INCOME, 1999:
$30,571 in TZ, $54,304 in region

The Housing Market

The housing market in the Twin Cities is hot, fast-growing and sprawling; 62 percent of homes were single family in 2005, slightly above the national average, with 10.1 percent built in 2000 or later. Housing production isn't keeping pace with population growth, and prices have risen almost 50 percent from 2000 to 2005 to $235,900, double the national average.



THE TWIN CITIES

Recent, Planned + Proposed Development (After 2003) Hiawatha Line

Legend

- Light Rail Stop
- Light Rail Transit

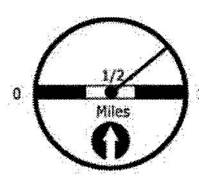
Recent Development

- Residential
- Mixed Use Residential
- Retail
- Office
- Hotel
- Civic
- Parking

* *Some projects may not show up due to overlapping dots*

* *Projects Unavailable for Bloomington Stations*

The amount of developer interest in Minneapolis' Hiawatha light rail line has surprised planners and residents, and projects are going up all along the line. While most of the development is concentrated downtown, smaller-scale projects are now being built in older, established neighborhoods as well. These neighborhoods are where some of the region's most affordable housing is located, and anxiety is growing over gentrification and neighborhood change.



Source: The Center for TOD + Strategic Economics + City of Minneapolis, 2006

Residential towers have sprung up around four downtown stations in Minneapolis, and industrial areas have been redeveloped as high-density mixed-use projects.

The region is expected to grow 50 percent by 2030, from 1.1 million households to 1.7 million, with 6.5 percent expected to want housing near transit.

The Case Study Corridor

The Hiawatha light rail corridor, subject of the case study, was the first in a series of transit improvements planned for the next 30 years. In 2006 ridership on the line exceeded the 2025 projections by 30 percent. Four percent of commute trips are by transit in the region. The Hiawatha line connects downtown to suburban Bloomington, home of the Mall of America and the Minneapolis-St. Paul International Airport, as well as jobs, sports and theater events, hospitals, retail and open space. Development is occurring all along the line, concentrated mostly in downtown, though smaller-scale projects are appearing in older, established neighborhoods, which offer some of the region's most affordable housing. The amount of developer interest has surprised planners and residents.

Local Policy and Funding

Metro Transit is overseen by the Metropolitan Council, the regional planning organization, which funded planning efforts during construction of the line; the city, meanwhile, developed station area plans with neighborhood input. There is growing anxiety over gentrification and neighborhood change, indicating the importance of communicating clearly about the type and amount of planned development and the commitment to affordability.

The city, county and region all have affordable housing programs, and gap financing is provided by the city and county with incentives for proximity to transit. The county also provides financial support for TOD, but has funded mostly market-rate projects. Some sites would qualify for Brownfield funding provided by the Metropolitan Council, and the city owns several vacant parcels that could be developed as mixed-income housing and catalyze the market. A variety of other TOD tools exist, but they may not necessarily strengthen the link between affordability and transit.

More than half the uses in the corridor are civic, which is both obstacle and opportunity: Public property owners have more resources and a mandate to be more transit-oriented when redeveloping their properties. But civic uses tend to be fixed and indifferent to the market, and redevelopment is complicated and difficult to integrate with other uses. Moreover, strategic planning needs to involve multiple public partners, including the Federal government, a major property owner in the corridor, the metropolitan airport authority, Hennepin County, the City of Minneapolis (with 11 stations), and the City of Bloomington (three stations).

However, investment in the line bolstered the market around four downtown stations, where high-rise and mid-rise condominium towers have sprung up and industrial areas have been redeveloped as high-density mixed-use projects. This development is oriented toward transit and provides a lively, walkable environment in which to live and work.

Lessons Learned

- *Outreach and coordination are necessary during the planning and design of new lines: The State Department of Transportation played a critical role in the engineering, design and construction of the Hiawatha line. But more outreach and coordination with city staff, corridor residents and the private sector would have led to better decisions about siting the line and stations to provide better pedestrian access and more development opportunities.*
- *Best to proactively address community change: Most development has happened downtown but public intervention to create and preserve affordable housing may be necessary if the market moves south into low-income neighborhoods. Pockets of concentrated poverty along the line could benefit from mixed-income strategies. This would require engaging the private sector and providing gap financing, rental subsidies or other incentives.*
- *The market can leverage community benefits: 66 projects have been planned or built downtown since 2003, most are residential, and seven include income-restricted and rent-subsidized units. Impact fees are illegal in Minnesota, but development agreements could be used to leverage community benefits from large projects, linking increases in density or other entitlements to investments in affordable housing. These agreements need to be negotiated before rezoning and coordinated with public infrastructure improvements.*
- *Large- and small-scale TOD projects are required: Both are required to create the density and pedestrian activity that supports retail. A high percentage of the development along the Hiawatha corridor will be on smaller parcels, where density bonuses could leverage community benefits including affordable units, green building, open space and sidewalk and streetscape improvements.*
- *Regional leadership is necessary: New transit projects create tremendous potential for mixed-income housing near transit. But this requires tools beyond what any one jurisdiction can provide. Strong regional coordination of investments and policies is important to the overall efficacy of any one of them.*

Public investment in the Portland streetcar helped leverage private investment in parks and high-quality public space that make for sublime city living, even for families.

PORTLAND

TRANSIT CORRIDOR:
3-mile streetcar line with 38 stops; service began in 2001 to the Pearl District and 2006 in the South Waterfront

RIDERSHIP:
7,783/day in 2005

RESIDENTS IN TRANSIT ZONES (TZ):
30,731 residents, 19,555 households

DENSITY:
39 dwelling units per acre

MEDIAN INCOME, 1999:
$27,921 in TZ, $46,090 in region

The Housing Market

Portland is a hot, moderately growing housing market; 63 percent of housing units are single family, with 10.5 percent built in 2000 or later. The growth in housing units combined with the increasing attractiveness and high median incomes in the region have put pressure on prices, which rose 22 percent between 2000 and 2005 to $228,400, higher than the national average. The region is expected to grow 54 percent, from 741,776 to 1.15 million households in 2030, with 27 percent expected to want to live near transit.

The Case Study Corridor

The case study corridor is along the streetcar, which opened in 2001; two extensions, to Portland State University and to the South Waterfront redevelopment district, have opened since, and more extensions are planned. The streetcar connects to the regional light rail transit system. Regional transit usage by commuters is 6 percent above the national average, and an additional 4 percent of work trips are made by bicycle or on foot, well above the national average of 2.4 percent.

Local Policy and Funding

The city and Metro, which is the regional government, together with TriMet, the regional transit agency, are often cited for their innovative and comprehensive approach to promoting TOD and transportation alternatives, including a modern streetcar and aerial tram. The State also supports TOD by authorizing tax abatements to provide additional incentives. TriMet plays an active role in acquiring land and establishing development criteria through its joint development authority. All visioning and planning is done with significant community input, and the private sector has been instrumental in implementing the vision of an environmentally and socially sustainable region.

Approximately $2.3 billion in development has occurred along the streetcar line in the Pearl District -- a substantial return on the $52 million transit project – and another new neighborhood called South Waterfront is being developed on underutilized industrial land that is also connected to downtown by the streetcar. Once an abandoned rail yard on the river near downtown, the Pearl is now home to a vibrant mix of uses including 7,000 residential units, 25 percent of which are affordable.

The 1998 Central City Plan introduced the idea of redeveloping these two large parcels into high-density mixed-use neighborhoods served by the streetcar. Both were established as urban renewal areas, and a local improvement district assessed non-owner-occupied residences to help pay for the streetcar and other improvements. The Central City Plan was reinforced by both regional and State land-use policies, as well as continued investment in pedestrian, bicycle and transit infrastructure. And it was supported by political leaders, powerful neighborhood associations and civic-minded developers.

Given the industrial nature of the rail yards and the large parcels of land, the Pearl lacked even the most basic infrastructure necessary to accommodate residential development. Moreover, the property was contaminated, creating delays and additional costs, which were eventually recovered from the former land owners. The Portland Development Commission (PDC) -- the city's urban renewal, housing and economic development agency – was the conduit for millions of dollars of public investment in the Pearl and South Waterfront, and used development agreements to leverage public objectives like affordability, parks and density.

The PDC, which had no financial resources to bring to the table, negotiated a deal with Hoyt Street Properties, the single largest landowner, that centered on the city making two improvements: The city would remove an overhead ramp that ran through the middle of Hoyt Street's 40 acres, rendering adjacent land un-developable, if the developer would commit to building a minimum of 87 dwelling units per acre (dua). The city also agreed to choose a streetcar alignment adjacent to Hoyt Street's property if density were further increased to 109 dua. Density was boosted to 131 dua when the city completed a park on land donated by the developer. The developer also contributed nearly $1 million to the city and local improvement district, donated other rights of way, and agreed to meet the city's affordability requirements. These densities would not have been possible without the streetcar because developers would have had to provide significantly more parking – most projects are parked at much lower ratios than elsewhere in the region – which would have dramatically increased the cost of development and reduced the number of housing units.

The large single-owner parcels provided major development opportunities – whole new neighborhoods were being built, allowing for the creation of a very different urban environment. Prior to the streetcar there was very little housing downtown, and high-quality high-density development and the lifestyle it supports were unknown in Portland. The pent-up demand for higher-density housing near transit coincided with demographic changes across the country resulting in smaller, older, more diverse households, boosting the market for urban housing. Moreover, because there were no existing residents, there was no community opposition.

Hoyt Street Properties and the city had acquired large portions of the rail yard prior to the escalation in value that typically accompanies up-zoning. This increased value helped pay for infrastructure and amenities through the use of tax-increment financing. Hoyt Street developer Homer Williams had mostly done single-family projects before the Pearl, and he took on significant risk for this unproven housing product. Williams is now a key owner and developer in South Waterfront.

Lessons Learned

- *Development agreements are an important value-capture tool: Comprehensive agreements outlining the responsibilities of all parties are an important tool for complex large-scale public/private projects. They motivate developers while ensuring that public goals are met and trust is maintained. Developers will help pay for infrastructure, affordable housing and other amenities in return for entitlements and other public support.*

- *A TOD framework is critical: Having a clear redevelopment plan -- the Central City Plan – and appropriate zoning was critical for negotiations, implementation and successful place-making.*

- *Flexibility is key: Market changes and unexpected costs resulted in a different scenario than originally planned in the Pear District. Flexibility is necessary to enable the developer to profit. A broad range of uses were allowed, though buildings had to respond to design standards.*

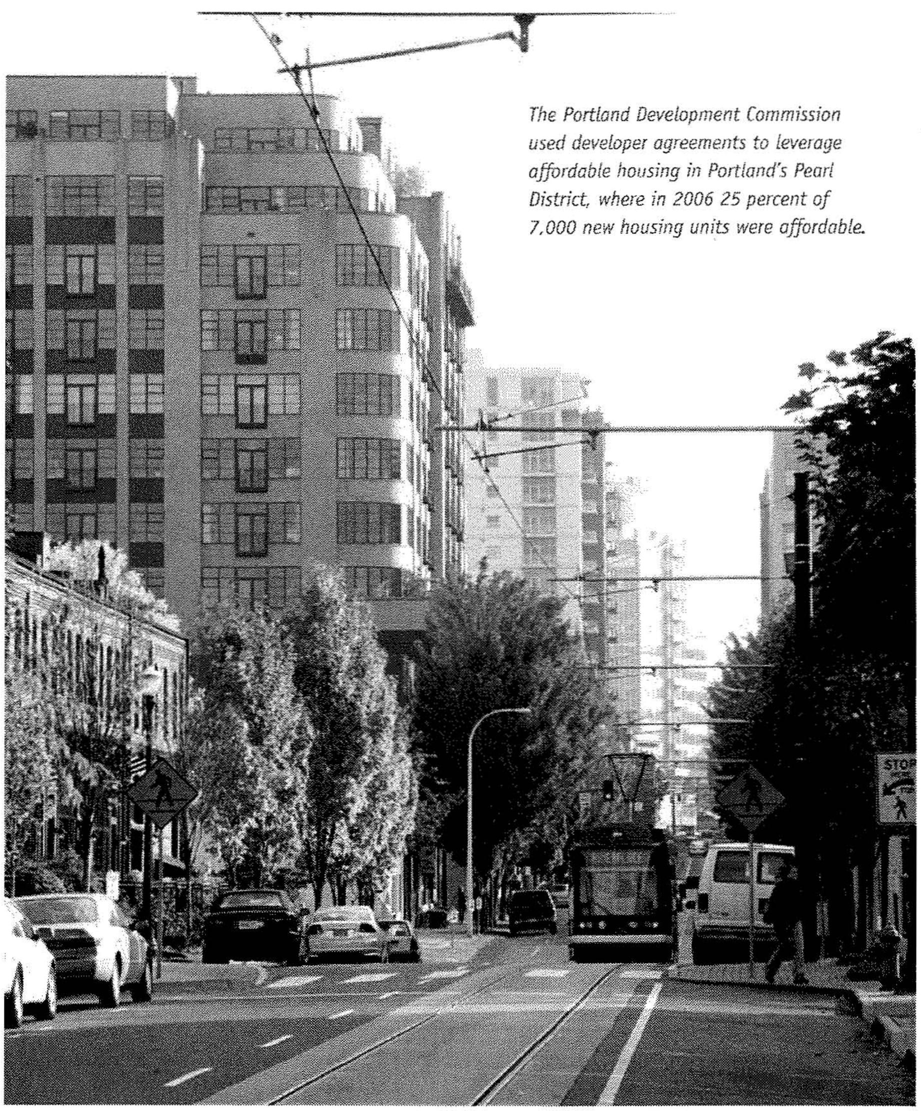
- *Underutilized industrial land presents significant opportunities for TOD: Large parcels can provide for whole new higher-density transit-oriented urban neighborhoods. Significant public investment may be needed, but it provides an opportunity for public-private partnerships.*

- *Different tools are required for different redevelopment opportunities: The development agreement is a good tool for large parcels but not for built-out areas with small infill parcels.*

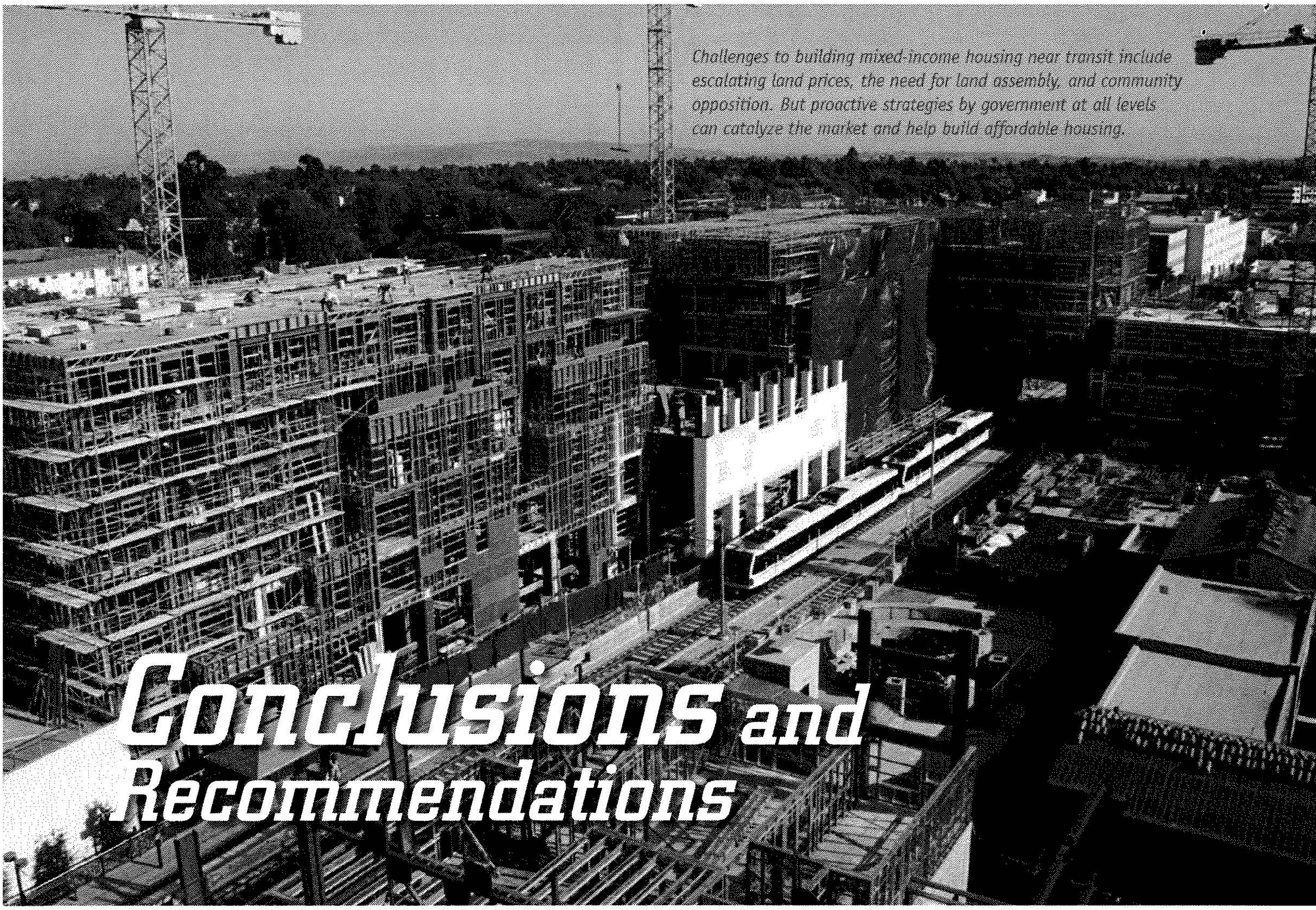
- *Inclusionary zoning isn't the only tool for affordable housing: Portland used development agreements, and set a goal of building the same percentage of affordable units as existed citywide. The mix of affordable units is re-evaluated at each phase of the project.*

- *Value capture strategies should fund an array of benefits: A variety of community benefits besides affordability are necessary to make a neighborhood work. The goal of affordability must be balanced with the need for open space, transit, density (where it involves more market risk), and other public amenities. Community input is required to determine the best balance.*

- *Create equal opportunity for developers: Tax abatements are another powerful tool to shape development. Incentives should be available to both for-profit and nonprofit developers to stimulate the production of affordable housing.*



The Portland Development Commission used developer agreements to leverage affordable housing in Portland's Pearl District, where in 2006 25 percent of 7,000 new housing units were affordable.



Conclusions and Recommendations

THE FIVE CASE STUDIES demonstrate that while there are challenges to providing mixed-income housing near transit, proactive strategies on the part of State, regional and local governments can serve as a catalyst for the market and help ensure that housing near transit serves a mix of incomes. These strategies can be broadly characterized into five categories of action detailed below. Table 10.1 specifies whether each of these strategies applies to State, regional and local governments and the private sector. There are descriptions of Federal actions that may be undertaken to support State and local decisions about housing and public transportation at the end of this report.

Proactive Strategies for Mixed-Income TOD

A. *Identify and utilize TOD opportunities in the region and along transit corridors.*

- *Target a significant percentage of regional growth into transit corridors: As transit systems expand and connect to more jobs and destinations, the opportunity to provide more housing for a wider range of incomes increases.*
- *Assess the potential for TOD to mitigate negative outcomes of displacement in the station areas where displacement of existing low-income residents could occur.*
- *Utilize publicly-owned properties along transit corridors for mixed-income housing: Land, buildings and excess facilities can be developed as mixed-income housing and help catalyze the market.*

B. *Provide incentives that help catalyze the market for mixed-income TOD.*

- *Create incentives at the local jurisdiction level to build at transit-appropriate densities: Both transit and affordable housing are significant public investments. Some regions make funding for new transit projects contingent on TOD-supportive planning and zoning (including density bonuses and lower parking requirements) by local governments in a proposed corridor.*
- *Facilitate the use of value capture tools for affordable housing and TOD: TOD can be very expensive because of the time and complexity involved, and adding in the costs of affordable units can make projects infeasible. But value capture tools such as tax increment financing, business improvement districts, and developer agreements can help underwrite mixed-income TOD.*
- *Create TOD land acquisition/land banking funds: These funds can be used to purchase land and housing near stations before the market heats up. Development fees, flexible State transportation and housing funds, and foundation funding can be used.*
- *Modify low-income housing tax credits to offer greater*

incentives for locating near transit: Four key changes would go a long way: 1) Offer points for proximity to transit. 2) Increase the subsidy for transit-oriented projects. 3) Enable larger TOD projects to benefit from low income housing tax credits. 4) Prioritize tax credits for the preservation of existing affordable housing, and consolidate the underwriting process to apply for tax credits and other resources simultaneously.

C. *Remove regulatory barriers to higher density, mixed-use development.*

- *Removing barriers helps reduce the cost of TOD: Zoning codes should support higher density mixed-use development, parking requirements should be reduced, and the entitlement and approvals process should be shortened and simplified.*
- *Encourage proactive station area planning and zoning: This helps provide certainty for developers and for existing residents, and minimizes community opposition.*

D. *Coordinate housing and transportation plans and investments.*

- *Coordinate long-range housing, land development and transportation planning processes: Both HUD and FTA require long-range plans. Coordination can result in more sustainable growth, and greater efficiencies and cost-savings for local governments and residents.*
- *Target funding to support the creation and preservation of affordable housing in transit corridors: Resources should be directed to those locations that can provide additional affordability benefits because household transportation costs are lower.*

E. *Improve local capacity, partnerships and data collection.*

- *Create the capacity within housing and transportation agencies to facilitate TOD: Staff is needed to monitor and support development at stations, coordinate with other agencies, and work with the real estate and development communities.*
- *Utilize FTA's joint development policy to emphasize construction of housing in transit zones: Real estate that's been acquired for rights of way, stations, parking lots and staging areas, and even air rights, can provide significant development opportunity. FTA's new joint development policy provides unprecedented flexibility for leasing and even selling this property for transit-supportive purposes.*
- *Monitor and track data on development activity, demographic trends and property values at both the corridor and station area levels: Community change is difficult, and accurate data is a powerful tool to help keep lines of communication open by minimizing rumor.*
- *Encourage public-private partnerships: Engaging the community as a full partner makes it possible to build trust and achieve community goals. Partnering with developers, realtors and businesses may also leverage private dollars.*

In addition, there are five primary recommendations for further action specific to the Federal government:

- *HUD and FTA should examine existing policy and funding programs at each agency in order to improve the coordination and facilitation of affordable housing and transportation investments, subject to funding availabilities.*
- *HUD should explore regulatory and policy approaches that may increase the supply of affordable or mixed-income housing within transit corridors. These would focus on preservation of existing rental housing near transit, and new construction of affordable and mixed-income housing.*
- *FTA should continue to evaluate and rate proposed major transit investments known as New Starts and Small Starts (49 USC 5309) under Congressionally-mandated criteria. Under FTA's current evaluative procedures, projects in areas with high population densities tend to earn better ratings because more people can walk to transit leading to higher ridership and resulting benefits. FTA also gives higher ratings to projects that serve higher numbers of lower-income, transit-dependent people. Consequently, the net effect is that the higher the population of lower-income residents near a transit station, the better the project's anticipated ridership and mobility benefits. FTA is exploring other approaches for rating projects that demonstrate the potential for higher ridership by transit dependent populations.*
- *HUD and FTA should establish an interagency working group that is responsible for continuing collaboration between the two agencies to maximize the opportunities for coordinated HUD and FTA actions. A primary function of this group will be to develop a five-year research and action plan to support these collaborative efforts.*
- *HUD and FTA should continue to study the relationships between housing markets and transit investments: This study is the first in many years to examine the linkages between the market, transit investments, travel patterns and development trends. More analysis is needed to establish performance measures and determine the efficacy of strategies being implemented in communities that are creating mixed-income housing near transit.*

(Footnotes)

[1] Center for Neighborhood Technology (CNT) and the Center for Transit-Oriented Development (CTOD), Preserving and Promoting Diverse Transit-Oriented Neighborhoods. CNT: November 2006.

[2] Center for Neighborhood Technology and Virginia Tech, "Housing and Transportation Cost Trade-Offs and Burdens of Working Households in 28 Metro Areas," a White Paper prepared for the Center for Housing Policy, 2006. The expenditure percentages are based on weighted average numbers for households for each income level in each tract for the 28 metropolitan areas analyzed. Transportation costs are calculated based on several data sources including the Census 2000, Census Transportation Planning Package 2000, and local transit data. A description of these sources and the model is provided in The Affordability Index: A New Tool for Measuring the True Affordability of a Housing Choice. Brookings Institution, Urban Markets Initiative, Market Innovation Brief: January 2006

Housing Hawaii

Advocating Creating Maintaining Affordable Housing

January 30, 2009

The Honorable Joseph M. Souki, Chair
House Committee on Transportation
Hawaii State Capitol, Room 433
Honolulu, HI 96813

Dear Chair Souki and Members:

RE: HB 77, RELATING TO TAXATION

I am Nani Medeiros, Executive Director of Housing Hawaii, testifying in opposition to House Bill 77, Relating to Taxation. This bill attempts to define transit oriented development projects, allow tax exemptions for qualified projects, and applies a new tax to qualified projects.

Summary:
This bill sets up a process for the Department of Health to grant exemptions from the general excise tax (GET) to qualified community health care facilities. Similarly, the bill authorizes the Hawaii Housing Finance and Development Corporation to grant GET exemptions to projects that provide affordable rental housing units within a mixed-use transit-oriented joint development (TOD) project approved by the corporation. The bill explicitly prohibits any county from having the authority to grant a GET exemption for mixed-use transit-oriented joint development projects as defined in this bill. As the bill is drafted, the prohibition is not limited to only the qualified community health care facility or rental housing project within a TOD, the prohibition of a county authorized GET exemption applies to the entire TOD project. As defined in the bill, under chapter 201H, a TOD project is one:

(1) That combines residential development with any combination of commercial **and** industrial development, **including** the development of community health care facilities;
(2) That is **approved by the county** in which the project is located; and
(3) To which chapter 104, or 40 United States Code sections 3141, 3142, 3143, 3144, 3146, and 3147, or a project labor agreement applies by law or contract in the construction of the project.

This bill applies the surcharge on the GET to TOD projects that are granted a GET exemption, and also applies the GET surcharge on any use tax levied on a TOD project. Currently, it does not appear that these taxes are applied to

Housing Hawaii, 841 Bishop Street, Suite 2208, Honolulu, HI 96813
Phone: 808-469-7774
Email: housinghawaii@hawaii.rr.com
www.housinghawaii.org

affordable rental projects developed under Chapter 201H. We defer to the HHFDC and Department of Taxation to clarify that.

Comments:
The bill establishes a mechanism for approving and exempting from GET, TOD projects that meet affordable rental housing requirements. However, the process established in the bill may not be the best approach. We are concerned that the process may prove to be problematic because it is confusing, cumbersome, and may add bureacracy and cost to affordable housing. The bill prohibits counties from granting any GET exemptions and requires the HHFDC to approve the exemptions for affordable rental housing TODs. However, according to the bill's criteria, the project must be approved by the county in order to qualify for the exemption that HHFDC grants. Current projects that receive exemptions under Chapter 201H do not have to get county approval first; why are we creating an additional layer of bureacracy for TOD projects? We should aim to establish a process for TODs that is much more fluid, streamlined, and predictable than current regulatory processes. We are concerned that the definition of a TOD provided under Chapter 201H is a disincentive to develop rental housing in a TOD. The definition requires a TOD project to have residential (rental, NOT for sale to qualify for GET exemption), commercial, industrial, and a community health care facility; the project must first receive county approval and then go to the HHFDC for approval, if GET exemptions are sought. Also, the rental residential portion of the project "shall serve as many lower income households as possible." These provisions are extremely limiting to a developer. More importantly affordable housing developed in a TOD under Chapter 201H will be taxed more than an affordable rental housing project developed elsewhere. We recommend the committee think about including incentives that draw developers into the TOD area and provide consistent, predictable regulations that are more expeditious than existing processes. We would be happy to work with the committee on such language.

Thank you for your time, and the opportunity to testify.

Nani Medeiros
Executive Director
Housing Hawaii