APPENDIX C

Funding and Implementation Strategy Report

STRATEGICECONOMICS

DRAFT FUNDING AND IMPLEMENTATION STRATEGY

VTA'S BART PHASE II TRANSIT-ORIENTED COMMUNITIES STRATEGY STUDY

Prepared for:

Santa Clara Valley Transportation Authority

June 30, 2019

Valley Transportation Authority

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EXECUTIVE SUMMARY

The Santa Clara Valley Transportation Authority (VTA) is leading a Transit Oriented Communities (TOCs) Strategy Study (the "Study") for three of the new BART stations that will be constructed as part of VTA's BART Phase II Corridor extension. These stations are 28th Street, Downtown San José, and Santa Clara. The goal of the TOC Strategy Study is to support the implementation of transit-oriented development (TOD) in the three station areas. Note that Diridon Station is being addressed in a separate study.

VTA's BART Phase II Corridor extension offers a once in a lifetime opportunity to deliver healthy, connected, prosperous, and equitable TOCs in the three station areas. The Funding and Implementation Strategy report provides a set of strategies that will enable VTA and its implementation partners – including the City of San José, City of Santa Clara, neighborhood and community-based groups, and the development community – to take full advantage of this opportunity.

This executive summary summarizes the TOC implementation priorities, the guiding principles for implementation, and eight strategies for funding and implementing TOCs.

TOC Implementation Priorities

The TOC Strategy Study provides a comprehensive set of recommendations for implementing TOCs in the 28th Street, Downtown San José, and Santa Clara station areas, including recommendations related to land use policy, zoning, parking requirements, and other policies that will enable greater densities and an appropriate mix of uses. These zoning and land use policies are necessary to set the table for TOCs, but they are not sufficient. To enable great TOCs, the public and private sectors must also work together proactively to achieve a broad set of priorities:

- Investing in **improved infrastructure and public facilities**, including bicycle, pedestrian, and transit access improvements, streetscape enhancements, storm drain improvements, parks, plazas, trails, and other open space, sanitary sewer, water distribution, and other utilities.
- Expanding existing funding and programs to **produce affordable housing** and **mitigate displacement risk** for low- and moderate-income households.
- Expanding efforts to **support local economic development**, including supporting and retaining small businesses, marketing and promoting local business districts and local cultural heritage, maintaining and programming parks and plazas, and addressing issues that affect local quality of life.
- Providing services to actively **manage transportation demand** and **enhance mobility.**

The total estimated cost of access, streetscape, and storm drain improvements in the three station areas is $423 million in 2019 dollars.[1] The total local resources needed to meet affordable housing production goals is approximately $1.1 billion. Cost estimates for the other implementation priorities are not available.

[1] Note that these costs do not include projects for which the Cities' have already identified funding.

Guiding Principles

Successfully implementing the TOC priorities will require dedicated City staff time over an extended period of time, ongoing collaboration among agencies and local stakeholders, and creative funding strategies. The report aims to enable implementation by taking an approach characterized by the following principles:

- **Take a corridor-level approach to implementation.** Many implementation actions will take place at a local (station area) level, by the respective Cities working with VTA and local stakeholders. However, the *TOCs Funding and Implementation Strategy* report recommends strategies that apply across multiple station areas. By taking a corridor-level approach, the report aims to prioritize the most critical investments across station areas, enable access to a broader range of funding sources, and bring a wider range of partners to the table.

- **Create a framework for leadership and ongoing collaboration.** Historically, redevelopment agencies played a primary role in spearheading implementation activities in California cities. Since the California legislature dissolved local redevelopment agencies in 2011, most cities have struggled to replace the lost funding and dedicated staff focused on implementation activities. This report recommends a framework for establishing strong leadership within the Cities, as well as ongoing partnerships between the Cities, VTA, and other key stakeholders, to fill the gap left by redevelopment.

- **Prioritize affordable housing and local community and economic development as well as infrastructure and enhanced mobility.** New funding sources and partnerships should be designed to accomplish multiple goals, including the Cities and VTA's goals related to affordable housing, economic development, and reduced greenhouse gas emissions.

- **Engage local partners throughout implementation:** Potential partners include community-based organizations, private and non-profit developers, local businesses, and major "anchor" institutions such as Santa Clara University and San José State University that have a strong interest in the success of the station areas.

- **Establish TOC financing districts to capture the value created by public investments.** The station areas are already attracting major development proposals in anticipation of BART's completion. Analysis of market demand and physical capacity found that there is potential for a total of 45 million square feet of new development in the station areas by 2040. Experience from the East Bay also shows that properties near BART can command a significant price premium, in the range of 15 to 18 percent. This report recommends establishing TOC financing districts such as Community Facilities Districts (CFDs) and tax increment financing (TIF) districts. By establishing TOC financing districts as early as possible, the Cities can capture some of the value that BART will create in order to help pay for infrastructure improvements, affordable housing, and other public investments.[2]

- **Actively pursue additional funding sources to jumpstart implementation.** No single funding source will cover the cost of implementation. Nearly all projects will require a combination of multiple funding sources, including grants, TOC financing districts, and fees or other project

[2] Note that as discussed below, there is an opportunity to share TIF revenues across station areas within the City of San José. CFDs will be implemented at the station area level.

revenues (such as revenues from a land sale). The Cities and VTA should pursue multiple funding sources and act opportunistically to take advantage of grants and other sources as they become available.

Comparison of Infrastructure Costs and Potential Revenues

As discussed above, the total estimated cost of access, streetscape, and storm drain improvements in the three station areas is $423 million in 2019 dollars. Assuming that projects are built out over time, with the highest priority projects built first, costs could total $750 million through 2040.[3]

Figure I shows the total potential revenues for infrastructure and public facilities that could potentially be raised from the strategies in this report, including:

- **TOC financing districts (CFDs and TIF districts):** $375 million, based on preliminary estimates and the assumptions described in the report.
- **VTA's BART Phase II project:** $9 million, in the form of access and streetscape improvements that are part of the BART Phase II project. [4]
- **Other:** $367 million, the remaining gap in funding that would need to be covered by other sources such as grants, developer contributions (above and beyond CFD special tax payments), and the Cities' Capital Improvement Programs (CIPs).

The biggest need is for upfront financing to pay for the highest priority infrastructure and access improvements that will enhance access to the stations and accelerate new development. Even assuming that TOC financing districts are put in place quickly, they will not generate substantial revenues (or allow for the issuance of bonds) until significant development has already occurred (Figure II).

The strategies described in the following section provide more detail on the potential for CFDs and TIF districts, as well as recommendations for how the Cities, VTA, and other stakeholders can work together to raise the remaining funding needed for infrastructure and public facilities improvements. The strategies are also intended to help address other implementation priorities, including increasing production of affordable housing, reducing household displacement, supporting local economic development, managing transportation demand, and enhancing mobility.

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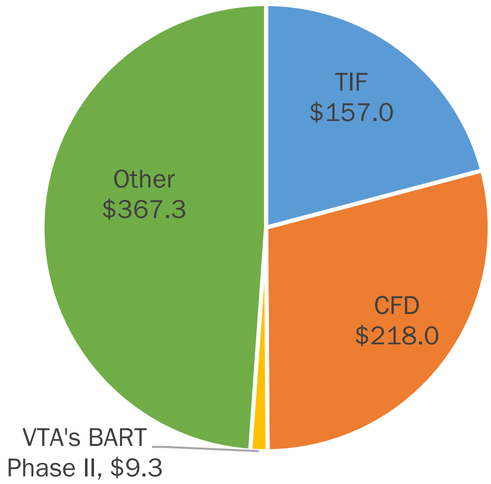
[3] Assumes 4.2 percent annual cost escalation (Caltrans standard rate).

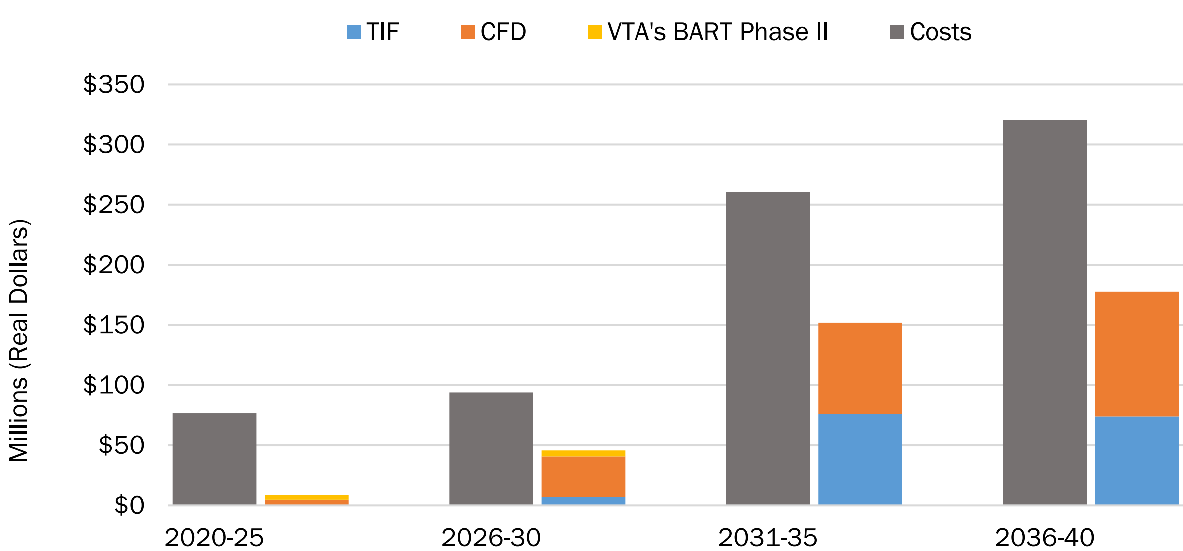
[4] Assumes contributions from VTA's BART Phase II are completed in 2020-2030; 4.2% annual cost escalation. In addition to the contribution to access and streetscape improvements, VTA has agreements in place to build out the Five Wounds trail from East Santa Clara Street to Julian Street, a contribution that is expected to total about $4.4 million in 2019 dollars, or about a quarter of the cost of building out the trail from Lower Silver Creek to US-280.

FIGURE I. ESTIMATED POTENTIAL FUNDING BY SOURCE THROUGH 2040 (MILLIONS, REAL DOLLARS)



Notes:
Assumes high-priority access and streetscape improvements are completed in 2020-2030; other access, streetscape, and storm drain improvements phased in between 2031 and 2040; 4.2% annual cost escalation.
TIF includes bond issuances in 2031 and 2036, plus excess pay-as-you-go revenues; CFD includes bond issuances in 2026, 2031, and 2036, plus excess pay-as-you-go revenues.
Assumes contributions from VTA's BART Phase II are completed in 2020-2030; 4.2% annual cost escalation.
Source: Strategic Economics, 2019.

FIGURE II. ESTIMATED ACCESS, STREETSCAPE, AND STORM DRAIN COSTS OVER TIME COMPARED TO POTENTIAL CONTRIBUTION FROM EIFD, CFD, AND VTA'S BART PHASE II (MILLIONS, REAL DOLLARS)



Notes:
Assumes high-priority access and streetscape improvements are completed in 2020-2030; other access, streetscape, and storm drain improvements phased in between 2031 and 2040; 4.2% annual cost escalation.
EIFD includes bond issuances in 2031 and 2036, plus excess pay-as-you-go revenues; CFD includes bond issuances in 2026, 2031, and 2036, plus excess pay-as-you-go revenues.
Assumes contributions from VTA's BART Phase II are completed in 2020-2030; 4.2% annual cost escalation.
Source: Strategic Economics, 2019.

Implementation Strategies

The report recommends eight strategies for funding and implementing TOCs. The recommended strategies are summarized in Figure III and discussed briefly below.

FIGURE III. SUMMARY OF IMPLEMENTATION STRATEGIES

STRATEGIES	IMPLEMENTATION PARTNERS
#1 Establish Community Facilities Districts to leverage contributions from new development	Lead: Cities of San José and Santa Clara Partners: VTA; other property owners; developers
#2 Implement tax increment financing districts, and consider sharing revenues across San José station areas	Lead: Cities of San José and Santa Clara Partners: Other taxing entities (e.g. Santa Clara County)
#3 Work together to identify grants and other upfront funding sources	Lead: Cities of San José and Santa Clara; VTA Partners: Affordable housing developers; potential new entities (e.g. Community Development Corporation)
#4 Engage with local partners to expand community and economic development activities	Lead: Local community groups, institutions, and/or business and property owners Partners: Cities of San José and Santa Clara
#5 Create dedicated staff positions within the Cities of San José and Santa Clara to lead TOC implementation	Lead: Cities of San José and Santa Clara
#6 Establish a framework for ongoing collaboration among the City of San José, the City of Santa Clara, and VTA	Lead: Cities of San José and Santa Clara; VTA
#7 Partner to increase production of affordable housing, preserve existing affordable housing, and prevent displacement of households	Lead: Cities of San José and Santa Clara; VTA Partners: Developers (non-profit and private), potential new entities (e.g. Community Development Corporation)
#8 Establish shared mobility districts to manage parking and provide transportation demand management services	Lead: Cities of San José and Santa Clara Partners: VTA; BART; other property owners

Source: Strategic Economics, 2019.

1. ESTABLISH COMMUNITY FACILITIES DISTRICTS TO LEVERAGE CONTRIBUTIONS FROM NEW DEVELOPMENT

A Mello-Roos Community Facilities District (CFD) is a special taxing district formed to finance improvements to public facilities. CFDs would apply only to new development and would not result in a tax increase for existing properties. CFD revenues could be used to pay for access, streetscape, or other infrastructure improvements in the station areas, as well as for specified services which could include transit operations and maintenance.

The Cities of San José and Santa Clara should explore establishing policies that incentivize new development to participate in CFDs, by making participation in a CFD a condition of approval for projects that exceed the heights, densities, or other requirements that are allowed by right. VTA could help accelerate the formation of a district by working with the cities to establish CFDs on the agency's joint development sites. Other sites could be annexed into the CFDs later, as additional development occurs in the station areas

Based on preliminary assumptions, CFD special taxes in the three station areas could raise an estimated $218 million for infrastructure improvements through 2040. CFD special taxes could also raise $23 million over 20 years to help pay for operations and maintenance of the BART extension, assuming that 20 percent of revenues were set aside for this purpose.

2. IMPLEMENT TAX INCREMENT FINANCING DISTRICTS, AND CONSIDER SHARING REVENUES ACROSS SAN JOSÉ STATION AREAS

A tax increment financing (TIF) district redirects incremental increases in property tax revenues that are generated within a designated geographic area to help fund infrastructure, other public facilities, and affordable housing. TIF does not add any new fee or tax obligations to property owners. Instead, TIF reallocates money from future revenues generated by the existing property tax rate, above and beyond what taxing entities currently receive. Cities, counties, and other taxing entities may choose to contribute to a TIF district.[5]

California state law currently authorizes the use of several TIF tools, of which Enhanced Infrastructure Financing Districts (EIFDs) are the most flexible and widely used. Jurisdictions that have established EIFDs in the last several years include the Cities of La Verne, West Sacramento, and San Diego. There are also several proposals currently under consideration in the state legislature that could enable new forms of TIF or expand their revenue-generating potential.

Both Cities should consider implementing TIF districts in the station areas. Any new TIF districts established in the station areas should include a substantial set aside (20 percent or more) for affordable housing. Based on preliminary assumptions, TIF districts in the three station areas could generate an estimated $157 million for infrastructure improvements through 2040. In addition, TIF districts could generate more than $18 million in revenues for affordable housing through 2040, assuming 20 percent of revenues were set aside for this purpose.

In San José, there is an opportunity for the City to create a district that would include multiple station areas. For example, a district could encompass both the Downtown San José and 28th Street station areas, taking advantage of the momentum occurring in Downtown, where most of the new development – and TIF revenue generation – is expected to occur. Revenues could pay for affordable housing, access and streetscape improvements, and other infrastructure in both station areas. In turn, these investments would help accelerate development throughout the corridor. This approach would be particularly helpful in the 28th Street station area, where major new investments are required but individual development projects are less likely to be able to support the provision of public improvements than in the other station areas.

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[5] Under current state law governing the use of EIFDs, school districts may not contribute to a TIF district.

3. WORK TOGETHER TO IDENTIFY GRANTS AND OTHER UPFRONT FUNDING SOURCES

While CFDs and TIF districts would contribute substantial resources to TOC implementation, additional funding will still be needed. In particular, there will be a need to identify upfront funding sources to make the highest priority improvements in the station areas, which will ideally be completed before the new BART service begins. The Cities and VTA should work together to:

- Prioritize key station area projects in the Cities' plans and Capital Improvement Programs (CIPs).
- Identify eligible projects for competitive grant programs, including projects that can leverage multiple funding sources.
- Identify projects that may be eligible for VTA's upcoming Valley Transportation Plan (VTP) 2050 update.

4. ENGAGE WITH LOCAL PARTNERS TO EXPAND COMMUNITY AND ECONOMIC DEVELOPMENT ACTIVITIES

Creating successful TOCs also requires ongoing investment in programs and services that create opportunities and benefits for local residents and businesses. For example, community and economic development activities in Downtown San José can capitalize on the introduction of BART service to support Downtown's emergence as the central business district of Silicon Valley. Stakeholders in the 28th Street station area place a high priority on protecting and promoting the district's Latino and Portuguese cultural identities, while limiting the displacement of small businesses and households. In the Santa Clara station area, there is a desire to support Downtown Santa Clara as a retail, dining, and entertainment destination, while also creating a new node of activity near the station.

The Cities should work with existing organizations and other community stakeholders in each station area to identify opportunities to expand services and programming to enhance the business environment, support and retain small businesses, and reduce the risk of household displacement. Potential partners include the Downtown San José Association, the Downtown Santa Clara Merchants' Association, the Alum Rock Merchants' Association, Santa Clara University, San José State University, and other local non-profits, property owners, and institutions. VTA can also play a supporting role as a local property owner; for example, VTA already participates in the Downtown San José BID.

Some of the specific opportunities discussed during the TOC Strategy Study process are described below:

- **Santa Clara station area:** Explore the potential for a Business Improvement District (BID) or Property-Based Improvement District (PBID) that would include new development in the immediate vicinity of the Santa Clara station area (i.e., on the northeast side of the rail tracks). A BID or PBID is a type of special assessment district that assesses and provides benefits to either business owners (in a BID) or property owners (in a PBID). A BID or PBID could provide services such as street cleaning, beautification, maintenance and programming of plazas and other public space, and public safety ambassadors.
- **Downtown San José station area:** Expand services and coordination among agencies to address homelessness, pedestrian and bicycle safety, and quality of life issues (e.g., late night noise, parking management), as recommended in the Downtown San José Retail Strategy.

Create and promote a strong brand identity for Downtown to help attract new businesses, residents, and visitors.

- **28th Street station area:** Continue the process of studying a BID to create a dedicated source of funding for local economic development activities in the station area. In addition, consider exploring a Community Development Corporation (CDC). A CDC could access a broader range of funds and provide tenant advocacy, small business support and assistance, and/or other local services (e.g., health-related). A CDC could also potentially develop affordable housing or other community-based projects such as a small market or food court to provide affordable space for emerging Latino and/or Portuguese businesses.

5. CREATE DEDICATED STAFF POSITIONS WITHIN THE CITIES OF SAN JOSÉ AND SANTA CLARA TO LEAD TOC IMPLEMENTATION

Implementation of successful TOCs will required will require staff time and commitment from the Cities of San José and Santa Clara, involving multiple departments within each of the two Cities. Each City should establish a senior level staff position (e.g., a “TOC manager”) dedicated to TOC implementation. The specific responsibilities of the TOC manager will change over time, but may include:

- Leading implementation of the TOC funding strategies.
- Ensuring implementation of the land use, parking, design and other policy changes to support good TOCs.
- Working across departments to prioritize TOC implementation.
- Engaging with partner agencies to support TOC implementation throughout the corridor.

6. ESTABLISH A FRAMEWORK FOR ONGOING COLLABORATION AMONG THE CITY OF SAN JOSÉ, THE CITY OF SANTA CLARA, AND VTA

The City of San José, the City of Santa Clara, and VTA should develop a framework for ongoing coordination. Other partners (such as BART, community organizations) may need to be involved as well, either regularly or on specific issues. For example, the framework could include monthly staff meetings and quarterly meetings with department directors. The topics that need to be covered will likely change over time. Some key topics are expected to include:

- Implementing TOD financing districts.
- Identifying and pursuing grant funding opportunities.
- Implementing shared mobility districts.
- Coordinating land use policy and zoning, especially in the Santa Clara station area.

7. PARTNER TO INCREASE PRODUCTION OF AFFORDABLE HOUSING, PRESERVE EXISTING AFFORDABLE HOUSING, AND PREVENT DISPLACEMENT OF HOUSEHOLDS

The TOC Strategy Study generated detailed recommendations for producing new affordable housing, preserving existing affordable housing, and preventing displacement of low- and moderate-income residents in the three station areas.[6] In general, the Cities have primary responsibility for implementing policies and services to protect existing tenants and homeowners from the risk of displacement and preserve existing affordable housing. The cities also have opportunities to increase local funding for affordable housing, such as citywide affordable housing bond measures, a commercial linkage fee in the City of San José,[7] and tax increment financing. VTA's primary role is in facilitating affordable housing development on agency-owned land, to meet VTA's on-site affordability requirements for joint development sites.[8]

There are also a number of implementation activities that will require partnerships between the Cities, VTA, affordable housing developers, existing and potential new community-based organizations, anchor institutions (such as San José State University and Santa Clara University), and other stakeholders. Implementation actions that will benefit from collaboration include:

- Partnering on grant applications for affordable housing and TOCs.
- Advocating for new state funding sources for affordable housing and TOD.
- Supporting citywide affordable housing bond measures.
- Monitoring new private funding sources to help fill the funding gap.
- Exploring opportunities for affordable housing development on sites owned by other public agencies (e.g., Santa Clara County, the State of California).
- Exploring partnerships (e.g., with Santa Clara University) to pursue workforce housing development.

8. ESTABLISH SHARED MOBILITY DISTRICTS TO MANAGE PARKING AND PROVIDE TRANSPORTATION DEMAND MANAGEMENT SERVICES

A shared mobility district is an entity that helps to manage parking resources and facilitate non-auto forms of transportation to reduce parking demand within a district. Shared mobility districts would be charged with identifying and facilitating opportunities to more efficiently use existing parking spaces, negotiating with private owners of existing parking facilities, building and managing new parking facilities as needed, and implementing wayfinding, signage, and other improvements to encourage visitors to park once and walk to destinations within the station area. Shared mobility districts would also provide transportation demand management (TDM) services to all members of the district within the station area, such as subsidized transit passes, incentives for commuters to take alternative modes of transit, and car and bike sharing programs. The district would also be in a position to work with VTA on tailored transit services, including off-peak service schedules that meet the needs of local businesses/employees.

Options to manage each station's shared mobility district could include the following:

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[6] See detailed recommendations in the TOC Strategy Study appendices.

[7] The City of Santa Clara already has a commercial linkage fee is already in place, and the City. of San Jose is currently planning to study the potential for a new fee.

[8] VTA's Joint Development (JD) Policy requires that at least 20 percent of housing units on any given JD site be made affordable to households earning no more than 60 percent of AMI, and half of these units must be targeted to households earning 50 percent of AMI or less. VTA's policy also requires that 35 percent of units in its overall joint development portfolio be made affordable to lower income households.

- **Downtown San José and Alum Rock/28th Street:** San Jose's Department of Transportation (DOT). DOT (under "ParkSJ" branding) currently manages all publicly owned off-street parking in Downtown, as well as one facility in Alum Rock.
- **Santa Clara:** The Santa Clara Department of Traffic, or a Joint Powers Authority including representation from Santa Clara, San Jose, VTA, and BART.

Note that existing agencies would need to expand their responsibilities (for example, to include TDM programming) in order to play the role of a shared mobility district. In order to be successful, shared mobility districts should be combined with reduced parking minimums and new parking maximums.

I. INTRODUCTION

The Santa Clara Valley Transportation Authority (VTA) is leading a Transit Oriented Communities (TOCs) Strategy Study (the "Study") for three of the new BART stations that will be constructed as part of VTA's BART Phase II Corridor extension. These stations are 28th Street, Downtown San José, and Santa Clara. The goal of the TOC Strategy Study is to support the implementation of transit-oriented development (TOD) in the three station areas. Note that Diridon Station is being addressed in a separate study.

VTA's BART Phase II Corridor extension offers a once in a lifetime opportunity to deliver healthy, connected, prosperous, and equitable TOCs in the three station areas. This report provides a set of funding and implementation strategies that will enable VTA and its implementation partners – including the City of San José, City of Santa Clara, neighborhood and community-based groups, and the development community – to take full advantage of this opportunity. In particular, the report recommends a set of funding strategies and partnerships that are intended to advance the following broad TOC implementation priorities:

- Improving infrastructure and public facilities to accommodate increased densities and provide excellent access to transit;
- Producing affordable housing and mitigating the risk of household displacement;
- Supporting local economic development; and
- Managing transportation demand and enhancing mobility.

Implementing these priorities will support equitable access to housing, employment, and transportation for existing communities, while also helping to attract new investment.

The TOC Strategy Study

The goal of the TOC Strategy Study is to facilitate the implementation of TOCs in the three station areas shown in Figure 1. The station area boundaries focus on locations within a one-mile walking distance of VTA's future BART stations where the Cities of San José and Santa Clara are already planning for growth.[9]

TOCs are neighborhoods with walkable places to live, work, shop, play, and learn. These communities strive to provide a diversity of jobs, housing types, and economic opportunities while reducing displacement of existing households and businesses and providing a range of affordable housing choices. The vision of the TOC Strategy is closely aligned with existing policy goals identified by the Cities of San José and Santa Clara related to land use and growth, affordable housing, local economic development, and sustainability (Figure 2).

One component of TOCs is TOD. TOD refers to compact, pedestrian-oriented, mixed-use development in proximity to high-quality, high-capacity transit.

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[9] See the TOC Strategy Study website for more information and other reports that are part of the Study: http://www.vta.org/bart/tocs.

Process for Developing the Strategy

VTA and the consultant team worked closely with staff at the Cities of San José and Santa Clara over a period of 18 months to identify the TOC implementation priorities and strategies recommended in this report. This collaboration included monthly coordination meetings with City staff, additional meetings on specialized topics with individual City departments, and quarterly meetings with a Technical Advisory Committee comprised of staff from the City of San José, City of Santa Clara, VTA, and BART. VTA and the consultant team also conducted a series of public workshops and meetings that were hosted by VTA's BART Phase II Community Working Groups and open to the broader public.

The report also draws on analysis of conditions in the station area conducted by Strategic Economics and other members of the consultant team, including:

- Market analysis and demand projections for office, multifamily housing, retail, and hotel uses.
- Development feasibility analysis of "good TOD" prototypes.
- Analysis of the fiscal impacts of the TOC development scenario to San José and Santa Clara's respective General Funds.
- Assessment of the opportunities and constraints for producing affordable housing and mitigating displacement risk, and for supporting and retaining small businesses.
- Analysis of potential parking and transportation demand management policy approaches.
- Case studies of "best practice" TOD funding and implementation models.

Background reports with additional information are available on VTA's TOC Strategy Study website.[10] The Study website also includes Strategy Reports for each station area, which describe the critical policies, strategies, and other actions needed to ensure delivery of TOCs. More detailed recommendations related to producing and preserving affordable housing, mitigating the risk of household displacement, and supporting and retaining small businesses are provided as appendices to the TOC Strategy Study.

Report Organization

Following this introduction, this report is organized into the following sections:

- **Section II** discusses the **purpose** of this report and **guiding principles** for implementation.
- **Section III** shows the **TOC development scenario** in comparison to the amount of growth provided for in current City plans.
- **Section IV** describes the **TOC implementation priorities** in more detail.
- **Section V** reviews the **opportunities and challenges** to implementing the priorities.
- **Section VI** recommends eight **TOC implementation strategies** for the Cities, VTA, and other partners.

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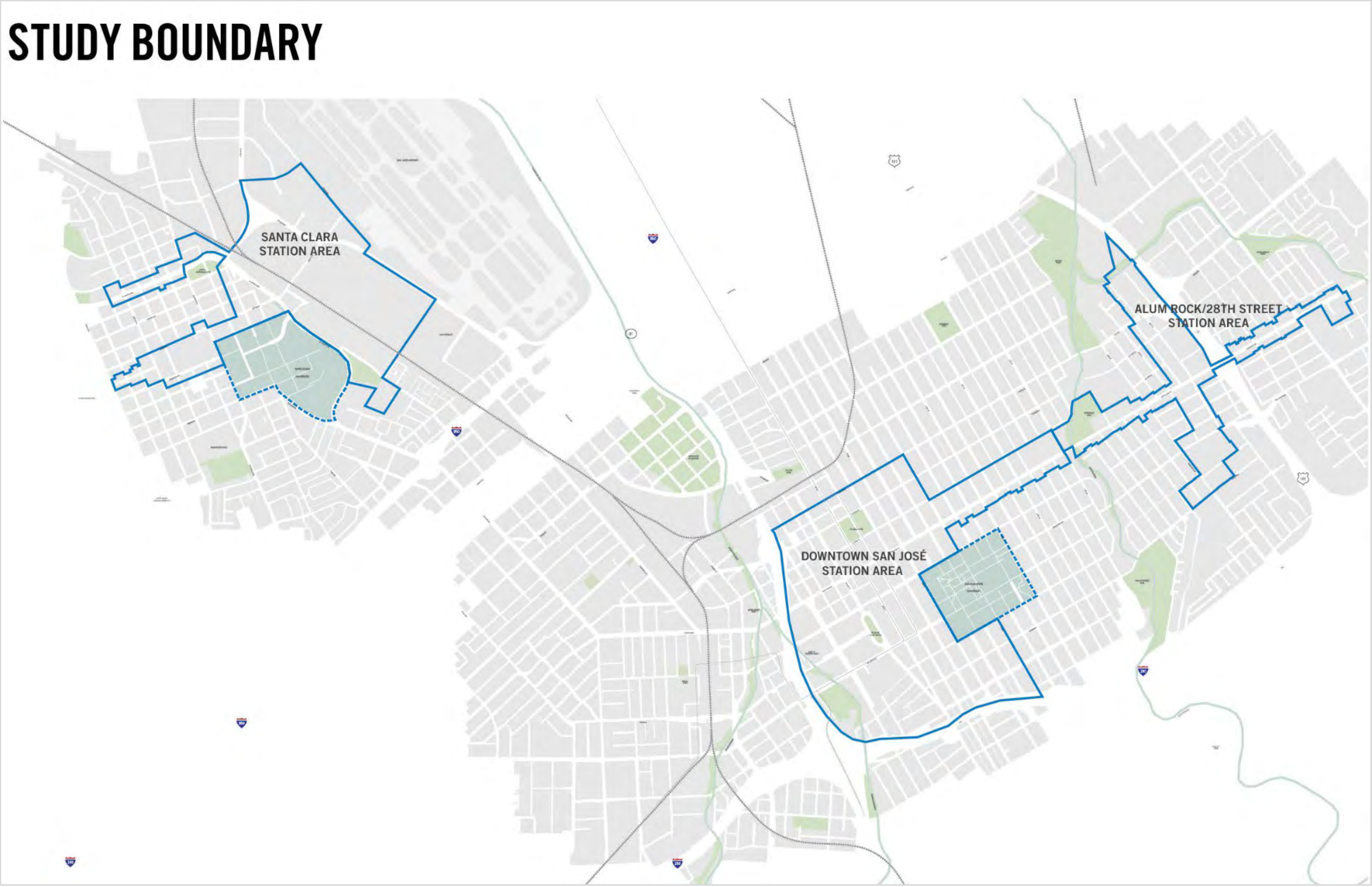
[10] Available at http://www.vta.org/bart/tocs.

FIGURE 1. VTA BART PHASE II TOCS STRATEGY STUDY STATION AREAS



Source: Perkins + Will, 2019.

FIGURE 2. TOC STRATEGY STUDY VISION AND THE CITIES' EXISTING POLICY GOALS

TOC STRATEGY STUDY VISION	EXAMPLES OF EXISTING CITY POLICIES/PROGRAMS WITH SIMILAR GOALS	
	CITY OF SAN JOSÉ	CITY OF SANTA CLARA
Focused job and housing growth near the stations	• Envision San José 2040 General Plan	• 2035 General Plan
Activation of existing centers of activity	• Downtown San José Retail Strategy • Downtown Design Guidelines • Urban Village Plans	• Downtown Precise Plan • El Camino Real Specific Plan • Santa Clara University Five Year Master Plan
Production and preservation of affordable housing	• Affordable Housing Investment Plan • Mayor's 5-year housing plan • City of San José inclusionary zoning policy	• City of Santa Clara inclusionary housing policy • Housing & Community Services programs and services
Small business support and economic development	• OED business development services • Downtown San José Retail Strategy	• El Camino Real Specific Plan
Walkable, bikeable, transit accessible neighborhoods	• Climate Smart San José • Better Bikeways Plan for Central San José • En Movimiento Transportation Plan for East San José • Ongoing plans for Guadalupe River Trail improvement	• Climate Action Plan • 2035 General Plan
Transition towards green streets, sustainable infrastructure, and reduced greenhouse gas emissions	• Citywide Green Infrastructure Plan • Complete Streets Design Guidelines	• Climate Action Plan

II. PURPOSE AND GUIDING PRINCIPLES

This section discusses the purpose of this report and the guiding principles for implementation.

Purpose of this Report

With the introduction of BART service, the three station areas have the potential to accommodate as much as 45 million square feet of new TOD. Including the Diridon station area, VTA's BART Phase II corridor could accommodate 52 million square feet of development or more. In addition to increased development activity, the introduction of BART service is also expected to generate higher property values.

Both the Cities of San José and Santa Clara have plans in place that envision future TOD around VTA's future BART stations. However, as discussed later in this report, current plans do not provide for the full scale of the TOD opportunity. Enabling a higher level of development than is in current plans will allow the Cities to fully realize the benefits of TOCs.

The TOC Strategy Study recommends changes to the Cities' respective land use policies, zoning codes, parking requirements, and other policies in order to enable greater densities and an appropriate mix of uses in the station areas. These zoning and land use policies are necessary to set the table for TOCs, but they are not sufficient. To enable great TOCs, the public and private sectors must also make proactive investments in bicycle, pedestrian, and transit access improvements and other infrastructure, while actively managing transportation demand and enabling a broader range of mobility choices. In addition, existing programs and funding must be expanded to address the critical need for affordable housing, reduce the risk of household displacement, and support local economic development.

Successfully implementing these TOC priorities requires dedicated City staff time over an extended period of time and ongoing collaboration among agencies and local stakeholders. Implementation will also require creative funding strategies, including establishing TOC financing districts that can capture some of the new value that will be created by the introduction of transit and TOD, in order to help pay for local improvements. Historically, redevelopment agencies played a primary role in this type of implementation in California cities. Since the California legislature dissolved local redevelopment agencies in 2011, most cities have struggled to replace the lost funding and dedicated staff focused on implementation activities. This report recommends strategies for establishing new partnerships and bringing together multiple funding sources to fill those gaps.

Benefits of Transit-Oriented Communities

Transit-oriented communities in VTA's BART Phase II station areas have the potential to achieve multiple benefits, including:

- Advancing the delivery of critically needed housing for all income levels
- Allowing residents and workers to access goods, services, and meet other daily needs by walking, bicycling, and taking transit
- Enabling healthier, more sustainable lifestyles
- Creating new value for property owners and developers
- Catalyzing economic development
- Generating a net increase in revenues for the Cities' General Funds
- Reducing greenhouse gas emissions

Why a Corridor-Level Implementation Strategy?

Many implementation actions will take place at a local (station area) level, by the respective Cities working with VTA and local stakeholders. However, this report recommends strategies that apply across multiple station areas. By taking a corridor-level approach, the funding and implementation strategy aims to:

- **Prioritize the most critical investments across station areas.** Taking a more comprehensive view of project prioritization helps make the most of scarce resources and achieve multiple TOC goals.
- **Access a wider range of funding strategies.** For example, the report identifies an opportunity for the City of San José to share tax increment financing (TIF) revenues across station areas in order to increase total funding capacity.
- **Bring a wider range of partners to the table.** The strategy provides a framework for ensuring ongoing collaboration among agencies and local stakeholders to make implementation more effective and inclusive.

Guiding Principles

The strategies recommended in this report aim to enable implementation by taking an approach characterized by the following goals and principles:

- **Take a corridor-level approach to implementation.** As discussed above, by taking a corridor-level approach, the report aims to prioritize the most critical investments across station areas, enable access to a broader range of funding sources, and bring a wider range of partners to the table.
- **Create a framework for leadership and ongoing collaboration.** Strong leadership within the Cities, as well as ongoing collaboration between the Cities, VTA, and other key stakeholders, is needed to provide focus and continuity over time.
- **Prioritize affordable housing and local community and economic development as well as infrastructure and enhanced mobility.** New funding sources and partnerships should be designed to accomplish multiple goals, including the Cities and VTA's goals related to affordable housing, economic development, and reduced greenhouse gas emissions.
- **Engage local partners throughout implementation:** Potential partners include community-based organizations, private and non-profit developers, local businesses, and major "anchor" institutions such as Santa Clara University and San José State University that have a strong interest in the success of the station areas.
- **Establish TOC financing districts to capture the value created by public investments.** This report recommends establishing TOC financing districts such as Community Facilities Districts (CFDs) and tax increment financing (TIF) districts. By establishing TOC financing districts as early as possible, the Cities can capture some of the value that BART will create in order to

help pay for infrastructure improvements, affordable housing, and other public investments at the district level.[11]

- **Actively pursue additional funding sources to jumpstart implementation.** No single funding source will cover the cost of implementation. Nearly all projects will require a combination of multiple funding sources, including grants, TOC financing districts, and fees or other project revenues (such as revenues from a land sale). In order to fill the gap, the Cities, VTA, and other partners must work together to pursue multiple funding sources and act opportunistically to take advantage of grants and other sources as they become available.

[11] Note that as discussed below, there is an opportunity to share tax increment financing revenues across station areas within the City of San José. Community Facilities Districts will be implemented at the station area level.

III. TOC DEVELOPMENT SCENARIO

The TOC Strategy Study envisions a higher level of density than called for in current City plans. Enabling more TOD in the station areas will allow the station areas to achieve the full benefits of TOCs by advancing the delivery of critically needed housing for all income levels, catalyzing local economic development, generating increased value for property owners, developers, and the Cities' General Fund, and making it easier for residents and workers to walk, bicycle, and transit to meet their daily needs.

In order to understand the scale of the opportunity for TOD, the consultant team projected future market demand and analyzed the physical capacity of the station areas for development. Based on this analysis, the station areas have the potential to accommodate 45 million square feet of new TOD, or as many as 32,000 new households and 43,000 new jobs.[12] This scenario (the TOC development scenario) assumes that the station areas attract more new development over time due to the introduction of BART services, investments in local access, streetscape, and other improvements, and the implementation of TOD-supportive policies (e.g., increased housing allocations, reduced parking requirements).

Figure 3 compares the TOC development scenario to existing City plans, which would accommodate only 22.2 million square feet of total development, or about 10,700 new households and 34,400 new jobs.[13]

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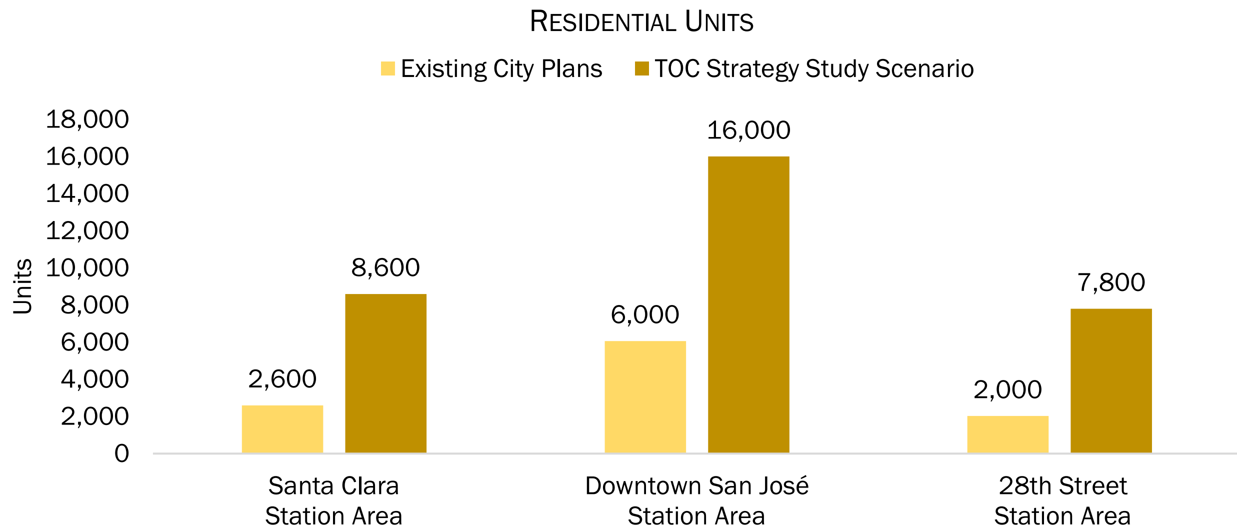
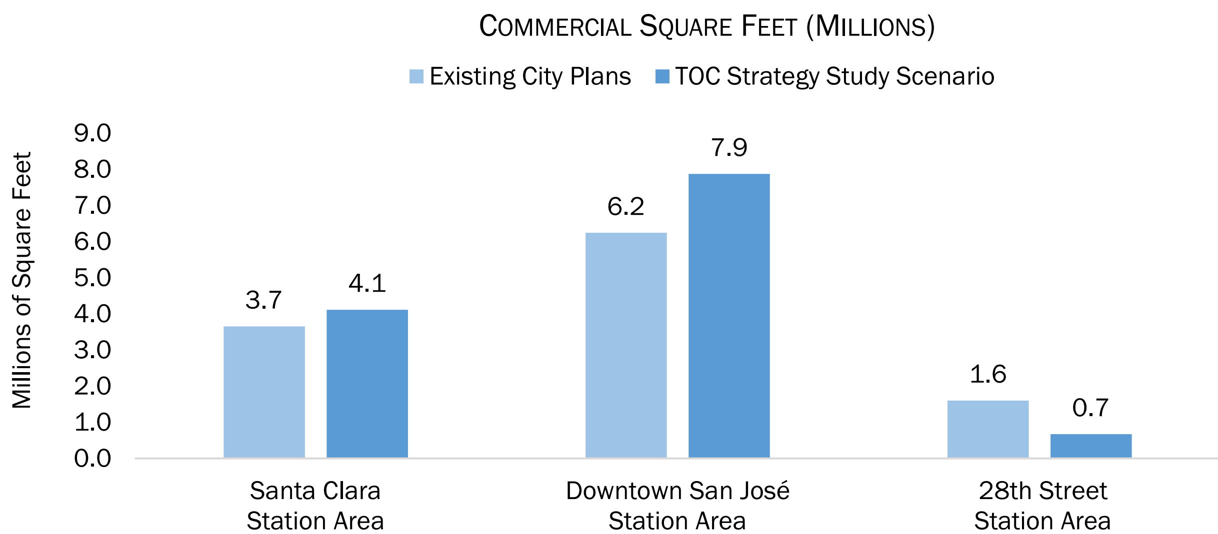
[12] See Appendix A for full development scenario and occupancy assumptions.

[13] Existing City plans include Downtown and Diridon stations as one growth area; these figures assume that 40% of growth planned in the Downtown Strategy 2040 occurs east of Highway 87. In the Santa Clara Station Area, some residential development may occur on parcels owned by Santa Clara University in the City of San José. This development was not included for the purposes of this analysis. The City of San José does not have an adopted plan for Santa Clara Station Area; current Coleman Highline plans used here for comparison. Sources: City of Santa Clara General Plan (2035); Downtown Strategy 2040; City of San José Urban Villages plans; Strategic Economics, 2019.

FIGURE 3. TOC DEVELOPMENT SCENARIO BUILD-OUT COMPARED TO EXISTING CITY PLANS





Notes:
Existing City plans include Downtown and Diridon stations as one growth area; these figures assume that 40% of growth planned in the Downtown Strategy 2040 occurs east of Highway 87.
In the Santa Clara Station Area, some residential development may occur on parcels owned by Santa Clara University in the City of San José. This development was not included for the purposes of this analysis. The City of San José does not have an adopted plan for Santa Clara Station Area; current Coleman Highline plans used here for comparison.
Sources: City of Santa Clara General Plan (2035); Downtown Strategy 2040; City of San José Urban Villages plans; Strategic Economics, 2019.

IV. TOC IMPLEMENTATION PRIORITIES

The TOC Strategy Study provides a comprehensive set of recommendations for implementing TOCs, including recommendations related to land use policy, zoning, parking requirements, street design, and affordable housing policy. This report focuses on those priorities that will require VTA, the City of San José, the City of Santa Clara, and their partners to take a proactive approach to implementation including dedicating staff time over an extended period, developing and implementing creative funding strategies, and establishing structures for ongoing collaboration among agencies and with local stakeholders. These priorities include:

- Improving infrastructure and public facilities;
- Producing affordable housing and mitigating displacement risk;
- Supporting local economic development; and
- Managing transportation and parking demand.

Each of these priorities is described below, including cost estimates where available.

Improving Infrastructure and Public Facilities

VTA and the consultant team worked closely with staff at the Cities of San José and Santa Clara to develop recommendations and preliminary cost estimates for the infrastructure and public facilities improvements needed to enable the level of growth envisioned in the TOCs development scenario. Detailed project lists and cost estimates are provided in the appendix to the TOC Strategy Study. As shown in Figure 4, the total estimated cost of infrastructure and public facilities improvements is $506 million in 2019 dollars. This includes $137 million in the Santa Clara station area, $221 million in the Downtown San José station area, and $148 million in the 28th Street station area.

In general, improvements fall into the following categories. As discussed in more detail below, this Strategy focuses on implementation of bicycle, pedestrian, and transit access improvements; streetscape enhancements; and storm drain improvements. Note that the improvements are above and beyond those for which the Cities have already identified funding in their Capital Improvement Programs (CIPs).

- **Bicycle, pedestrian, and transit access improvements ($167.2 million):** This category includes additional bike lanes, pedestrian crossings, bus bulb-outs, ADA ramps, upgrading signals for transit, bicycle, and pedestrian priority, and installing wayfinding signage along key access routes. These improvements will allow existing and future residents and workers to reduce their dependency on the automobile and take full advantage of BART service. In turn, development in the station areas will be able to provide less parking and deliver more space for living and working, making higher density TOD more feasible.

- **Streetscape enhancements ($195.9 million)**: Streetscape enhancements include street trees, lighting, benches and other furniture, and bike racks along key access routes, designed to reflect the distinct identity of each station area (or in some cases, subareas within the station areas). These improvements will contribute to a high-quality street environment, which in turn will encourage residents and walkers to walk and bike, attract shoppers to help support local retail, and make the station areas more attractive for TOD.

- **Storm drain improvements ($59.9 million)**: Recommended storm drain improvements include upsizing all storm drains that are deficient during a 10-year storm event within the station areas, as well as main storm drains that are directly downstream from the station areas. These improvements would reduce ponding in the streets during 10-year storm events, contributing to improved quality of life for existing and future users.

- **Parks, plazas, trails, and other open space ($16.1 million[14]):** The cost estimate shown in Figure 4 reflects the installation of Five Wounds Trail from Lower Silver Creek to US-280. Once developed, the full Five Wounds Trail will link the Berryessa and 28th Street BART stations with Lower Silver Creek Trail and Coyote Creek Trail. In addition to the trail, parks, plazas, and other open space will be a critical component of the future station areas. Additional analysis outside the scope of this project will be required to estimate the full extent of these costs.

- **Sanitary sewer ($55.1 million[15]):** Preliminary estimates of sanitary sewer costs were developed for the Downtown San José and 28th Street station areas that reflect projects that are already in the City of San José's existing Sanitary Sewer Master Plan. These planned improvements may need to be accelerated in order to accommodate the higher level of growth anticipated in the TOC Strategy Study. The City of Santa Clara does not currently have capacity improvement projects planned in the station area. However, in both Cities, there may be a need to make additional improvements to sanitary sewer systems in order to accommodate a higher level of growth than is currently reflected in City plans. In order to identify needed improvements and develop a more complete estimate of costs, the Cities will each need to update their sanitary sewer models.

- **Water distribution ($11.9 million):** Improvements to the water distribution system (i.e., pipes) are required to deliver adequate fire hydrant flows to meet the demands of large, multi-story, potentially wood-framed buildings. In addition to the water distribution improvements shown here, additional storage facilities and water contracts may be required to serve the higher level of growth anticipated in the TOC Strategy Study. The City of Santa Clara and the San José Water Company (the independent water utility that serves the City of San José) will need to conduct more detailed analysis to evaluate actual impacts and upgrades required to the system to accommodate dense development.

In addition to the project types shown in Figure 4, improvements to recycled water, electric, gas, and other systems may be needed. Additional analysis outside the scope of this project would be needed to estimate these costs.

INFRASTRUCTURE TYPES THAT ARE THE FOCUS OF THIS STRATEGY

This Funding and Implementation Strategy focuses primarily on the following types of infrastructure improvements:

- Bicycle, pedestrian, and transit access improvements;

[14] Note this cost estimate only includes the portion of the Five Wounds Trail from Lower Silver Creek to US-280.
[15] Note that this cost estimate only includes projects in the City of San José.

- Streetscape enhancements; and
- Storm drain improvements.

The estimated total cost of providing needed improvements in these categories is $423 million (Figure 4). These types of improvements are the focus of the Strategy because they currently have no dedicated sources of funding, and have the potential to create tremendous value in the station areas by enabling higher density development, improving quality of life, and attracting new residents, workers, shoppers, and other users. In contrast, sanitary sewer, water, and other utilities generate revenues by charging fees to new development for connecting to the system, as well as rates for use. Both the City of San José and Santa Clara have Park Land Dedication Ordinances in place that require developers to dedicate parkland or pay in-lieu fees, making it likely that developers will be required to provide needed parks and plazas as a condition of approval. However, staff from both Cities cautioned that current fees may not be high enough to cover the full cost of making major improvements, so updated fees or other revenue sources may be required.

PROJECT PRIORITIZATION

The consultant team worked closely with staff at both Cities to determine which of the access and streetscape projects are the highest priority. For the purposes of this analysis, "high priority" projects were defined as improvements that should be made in advance of or concurrently with the introduction of BART service in order to support access to the stations and other key destinations in the station areas. Based on discussions with City staff, none of the identified storm drain projects were categorized as "high priority.[16]"

As summarized in Figure 4, the total cost of high-priority access and streetscape improvements is estimated at $130 million over the three station areas, including $33 million in the Santa Clara station area, $44 million in the Downtown San José station area, and $53 million in the 28th Street station area.

Figures 5-7 illustrate the high-priority access improvements in each station area. In addition to the projects shown, the high-priority improvements include constructing bus bulb-outs and ADA ramps within a quarter mile of the stations where needed; upgrading signals within a half mile of the stations where needed for transit, bicycle, and pedestrian priority, and installing wayfinding signage and treatments along access routes within each station area.

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[16] The Cities' highest storm drain priorities are related to addressing more severe flooding problems in locations outside the station areas.

FIGURE 4. ESTIMATED INFRASTRUCTURE COSTS BY STATION AREA AND PRIORITY

	Santa Clara Station Area	Downtown San José Station Area	28th Street Station Area	Corridor Total
Infrastructure and Facility Categories				
Bicycle, pedestrian, and transit access improvements	$64.2	$31.6	$71.4	$167.2
Streetscape enhancements	$44.6	$112.5	$38.8	$195.9
Trails (a)	$0.0	$0.0	$16.1	$16.1
Storm drain (b)	$25.4	$27.0	$7.5	$59.9
Sanitary sewer (c)	$0.0	$47.0	$8.1	$55.1
Water distribution (d)	$2.7	$3.2	$6.0	$11.9
Total estimated costs	**$136.9**	**$221.3**	**$147.9**	**$506.1**
Total access, streetscape, and storm drain costs (e)	**$243.0**	**$171.1**	**$117.7**	**$422.9**
High-Priority Access and Streetscape Improvements (f)				
Bicycle, pedestrian, and transit access	$18.3	$7.0	$32.7	$58.1
Streetscape enhancements	$14.6	$36.5	$20.6	$71.7
Total high-priority access and streetscape costs (f)	**$32.9**	**$43.5**	**$53.3**	**$129.8**

(a) Installation of Five Wounds Trail from Lower Silver Creek to US-280. Additional analysis outside the scope of this project would be required to estimate the full extent of additional park, plaza, and open space costs. Both the City of San José and Santa Clara have Park Land Dedication Ordinances in place that require developers to dedicate parkland or pay in-lieu fees, making it likely that developers will be required to provide needed parks and plazas as a condition of approval.

(b) Only includes storm drains that are within the station areas, and main storm drains that are directly downstream from the station areas.

(c) Reflects projects that are already in the City of San José's existing Sanitary Sewer Master Plan. The City of Santa Clara does not currently have capacity improvement projects planned in the station area. In order to identify additional needed improvements and develop a more complete estimate of costs, the Cities will need to update their sanitary sewer models.

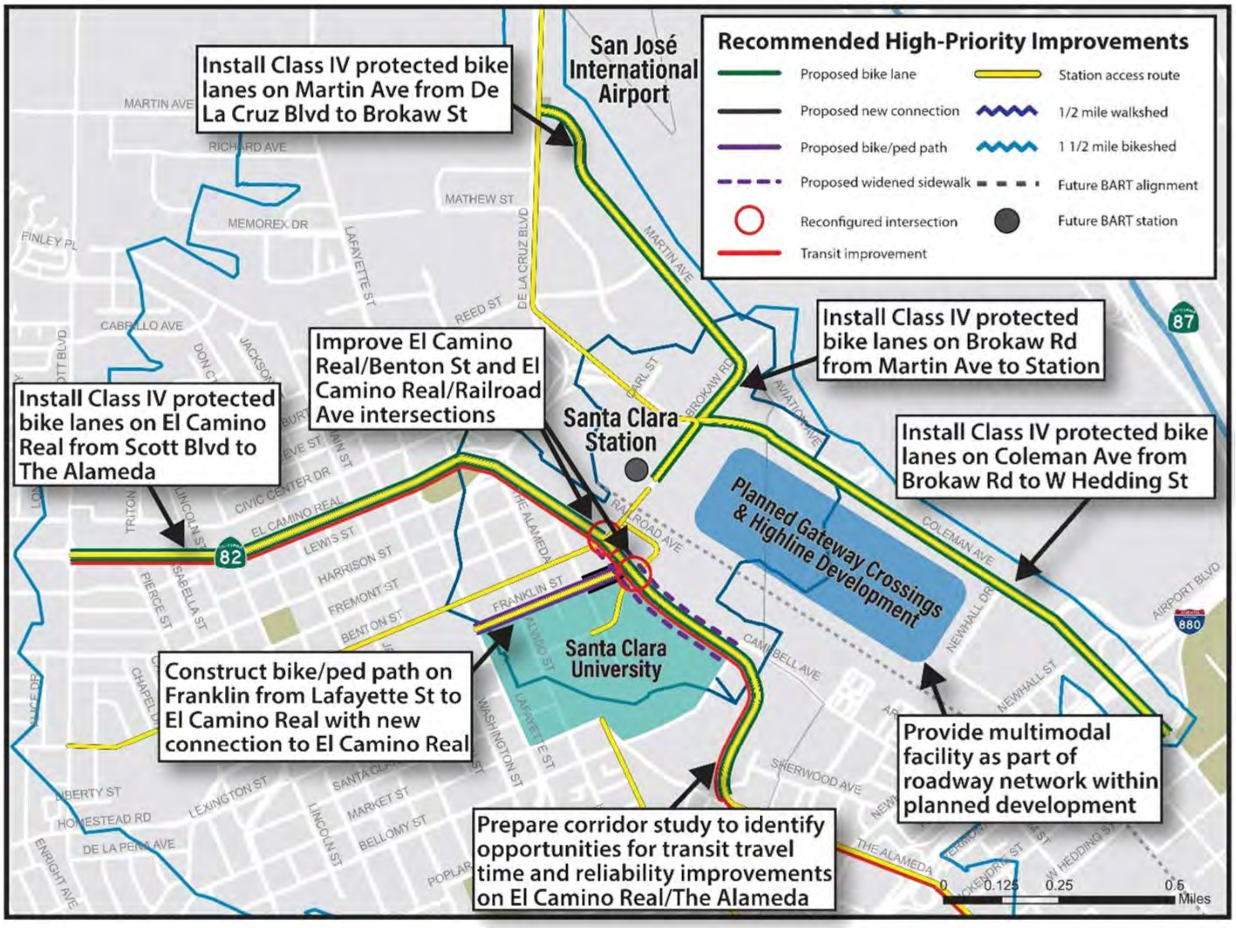
(d) Improvements to the water distribution system (i.e., pipes) required to deliver adequate fire hydrant flows

(e) Bicycle, pedestrian, and transit access improvements, streetscape enhancements, and storm drain improvements are the focus of this strategy.

(f) Improvements that should be made in advance of or concurrently with the introduction of BART service in order to support access to the stations and other key destinations in the station areas. Based on discussions with City staff, none of the identified storm drain projects were categorized as "high priority

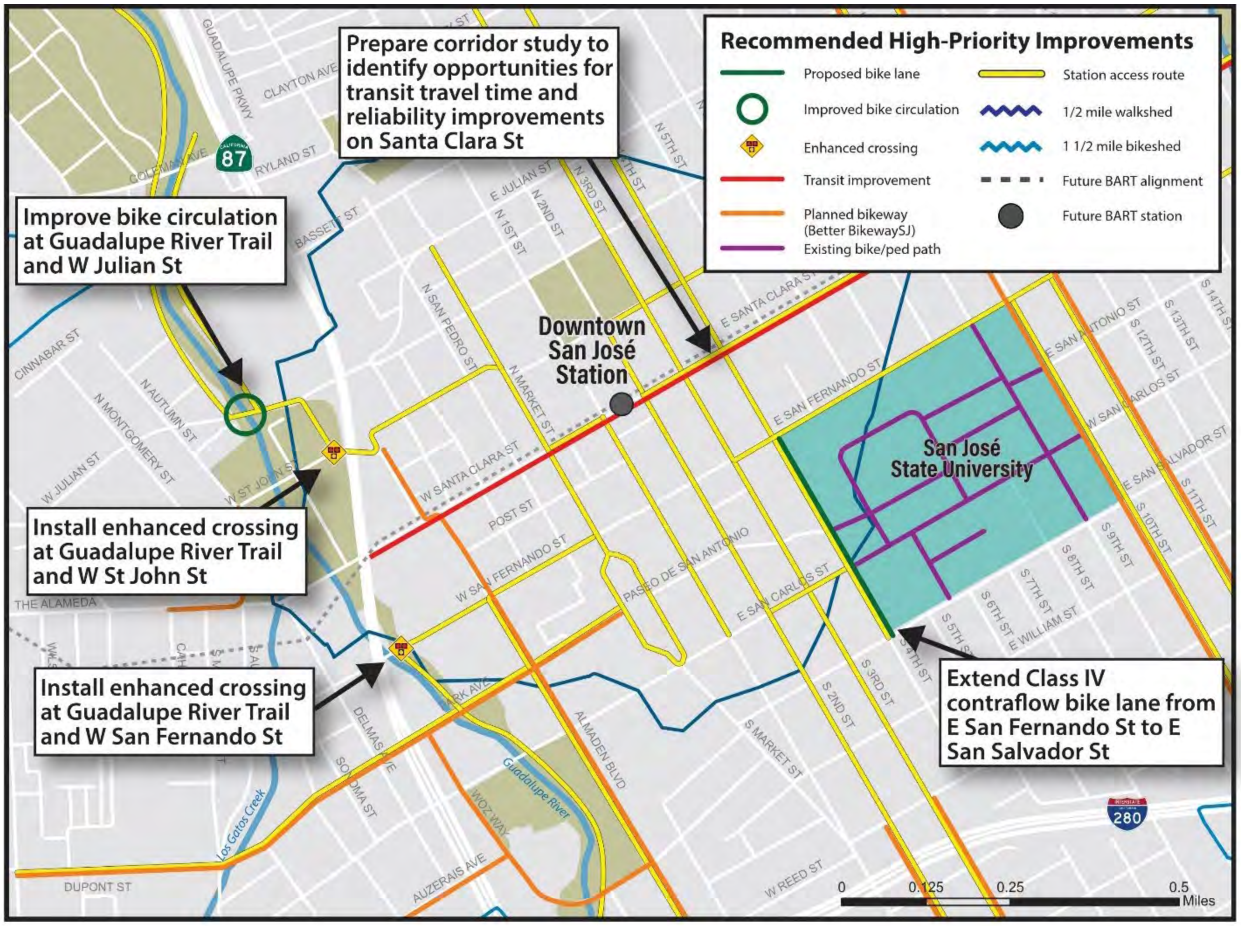
Sources: BKF Engineers and Kimley-Horn and Associates, 2019.

FIGURE 5. HIGH-PRIORITY ACCESS IMPROVEMENTS: SANTA CLARA STATION AREA



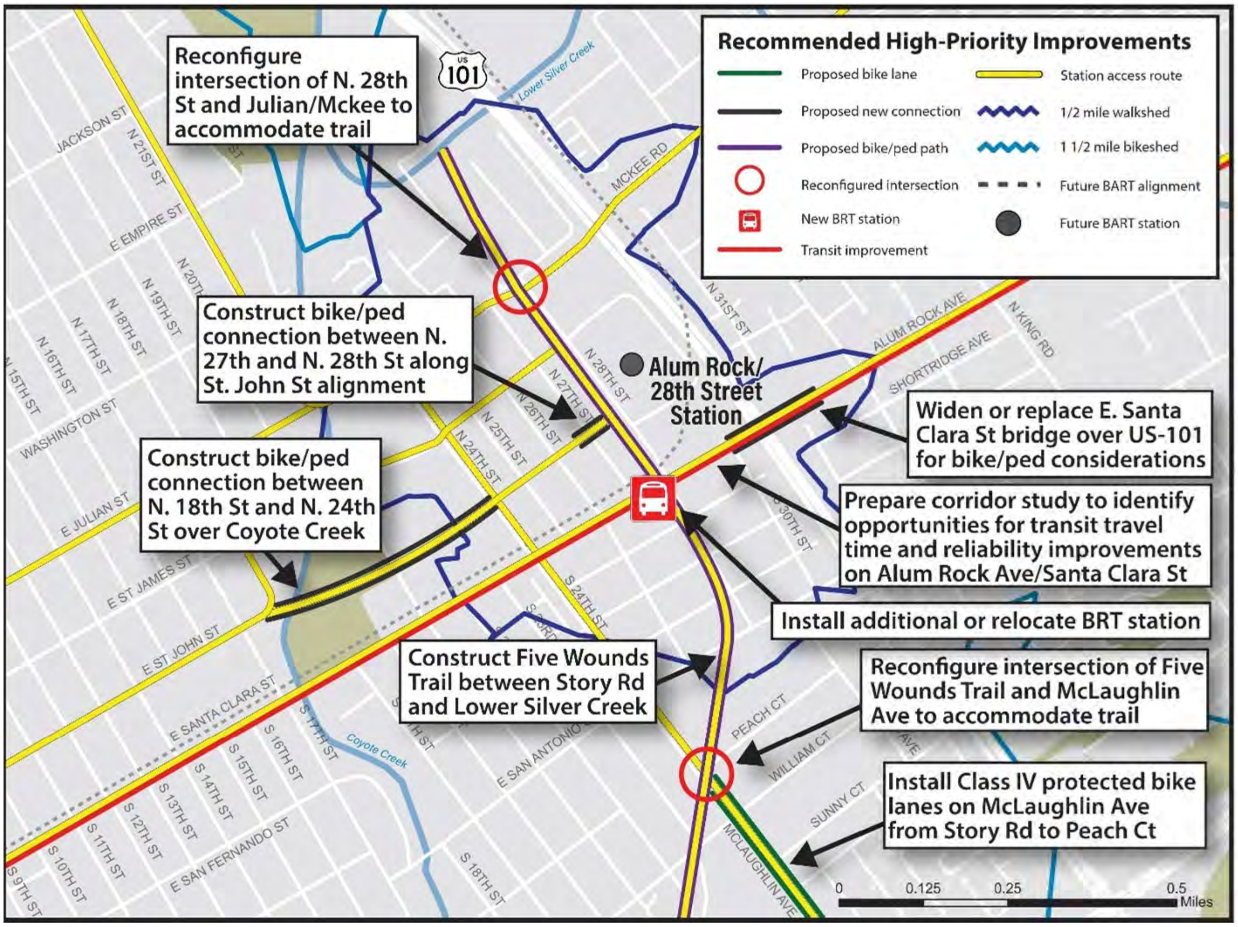
Source: Kimley-Horn, May 2019.

FIGURE 6. HIGH-PRIORITY ACCESS IMPROVEMENTS: DOWNTOWN SAN JOSÉ



Source: Kimley-Horn, May 2019.

FIGURE 7. HIGH-PRIORITY ACCESS IMPROVEMENTS: 28TH STREET



Source: Kimley-Horn, May 2019.

Producing Affordable Housing and Mitigating Displacement Risk

VTA's BART Phase II extension has the potential to provide significant benefits to low and moderate-income households in the station areas and surrounding neighborhoods, including providing new connections to employment centers and reducing household transportation costs. At the same time, however, new transit investments are expected to generate increased market activity and lead to rising home values and rents. While both the Cities of San José and Santa Clara have policies and programs in place to help protect existing households and produce new affordable housing as new market-rate development occurs, additional intervention will be required to ensure that the future station areas offer housing that is affordable to low- and moderate-income residents.[17]

[17] More detailed analysis of opportunities and challenges, as well as detailed recommendations related to affordable housing and anti-displacement strategies, are provided in the appendix to the TOC Strategies Study.

For the purposes of the TOC Study Strategy, housing is defined as "affordable" if a household spends 30 percent or less of its gross income on housing costs. By this definition, affordable housing includes regulated units that have limits on the maximum rents or sales prices (also called deed-restricted units), as well as unregulated units that have no restrictions on rents or sales prices but are relatively low cost.[18]

In order to address the critical need for affordable housing, The TOC Strategy Study recommends policies and programs to address the following three priorities:

- **Produce new affordable housing units to expand the availability of housing for lower income households in the station areas.** The amount of local resources needed to meet the affordable housing goals for the Santa Clara, Downtown San José, and 28th Street station areas is approximately $1.1 billion. This amount of local resources (which could include a combination of direct monetary contributions and land donations from the Cities and Santa Clara County) could help build nearly 6,500 new affordable housing units by 2040 (Figure 8).[19]
- **Preserve the affordability of existing housing in the station area and surrounding neighborhoods.** All three station areas have a substantial supply of deed-restricted housing affordable housing (approximately 1,580 existing units in total). Of these, 276 units have deed restrictions that are expiring in the next 10 years (Figure 9). In addition, the station areas also include many naturally occurring affordable housing (NOAH) apartment units that are not protected by deed restrictions but may be affordable to low- or moderate-income households due to age, condition, or other factors. Rent-stabilized units, mobile homes, and historic homes (built before World War II) may also be relatively affordable now, but could be redeveloped and/or become unaffordable to lower income households in the future. (Note that because these categories are overlapping and data are pulled from multiple sources, it is not possible to estimate the total number of affordable housing units at-risk of conversion to market rates.)
- **Protect tenants and homeowners that currently live in the station areas and surrounding neighborhoods.** The Urban Displacement Project (a University of California, Berkeley research initiative) found that the processes of gentrification and displacement are already underway in Downtown San José, while neighborhoods surrounding the 28th Street station are at-risk of experiencing these pressures.[20] The station areas are home to many households that are vulnerable to displacement – including severely cost-burdened households[21] -- especially in the Downtown San José and 28th Street station areas (see Figure 9). The data

[18] Deed-restricted affordable housing can be restricted to one of several income categories: (a) extremely low-income, or households earning 30 percent of area median income (AMI) and below; (b) very low-income households earning 31 to 50 percent of AMI; (c) low-income households earning 51 to 80 percent AMI; (d) or moderate-income households earning 81 to 120 percent of AMI.

[19] Based on recent affordable housing development activity in Santa Clara County, the cost of developing one affordable housing unit is estimated between $600,000 to $800,000. Local funding (City, County, and land donation contributions) typically accounts for around $173,000 per unit, with the remaining funding provided by state, federal, and other sources. The typical local funding amount ($173,000) was multiplied by the targeted number of affordable housing units in each station area, based on the TOC Strategy Study development scenario and affordable housing targets specific to each station area.

[20] For the purposes of this study, gentrification is defined as the process of change that neighborhoods experience when they begin to attract new private and public investments. Change is often observed in the neighborhood's built environment and real estate investments (such as an increase in home renovations, new construction, or real estate values), as well as the neighborhood's demographics (primarily the influx of new higher-income residents, often of a different race and higher education level. Displacement is the process through which households are forced to leave their residence in response to the economic and social pressures of gentrification. Source: The Urban Displacement Project, Center for Community Innovation at the University of California at Berkeley. http://www.urbandisplacement.org/.

[21] The U.S. Housing and Urban Development (HUD) defines a household as severely housing cost-burdened if more than 50 percent of household income is spent on housing costs.

for the Santa Clara station area are insufficient to conclude whether households are at high risk of displacement.

FIGURE 8. AFFORDABLE HOUSING PRODUCTION LOCAL FUNDING GAP IN VTA'S BART PHASE II STATION AREAS

	Net New Residential Units, 2019-2040 (a)	Affordable Housing Target (b)	Target Net New Affordable Housing Units, 2019-2040	Total Affordable Housing Local Funding Gap, 2019-2040 (c)
Santa Clara Station Area Downtown	8,626	15%	1,294	$223,458,977
San José Station Area 28th Street	15,992	20%	3,198	$552,376,637
Station Area **All Station Areas**	7,827	25%	1,957	$337,934,426
	32,445	**20%**	**6,449**	**$1,113,770,039**

(a) Based on the TOC Study Strategy development scenario.
(b) The affordable housing targets represent the Cities' targets for the share of new housing development that should be deed-restricted affordable. The targets shown in the table are based on the City of Santa Clara's inclusionary housing ordinance (for Santa Clara Station); the Downtown Strategy 2000 EIR (for Downtown San José); and City of San José's Urban Villages policy (for 28th Street).
(c) Targeted net new affordable housing units, times the per unit local funding gap ($172,702). The per unit local funding gap represents the typical amount of funding provided by the City, County, and/or land donations, based on a sample of recent deed-restricted affordable housing projects in Santa Clara County.
Sources: VTA, 2019; California Tax Credit Allocation Committee Staff Reports, 2016-2018; Santa Clara County Office of Supportive Housing, 2017-2018; City of San José, 2018; City of Santa Clara, 2018; Strategic Economics, 2019.

FIGURE 9. SUMMARY OF DISPLACEMENT VULNERABILITY INDICATORS IN THE AFFORDABLE HOUSING STUDY AREAS

	Santa Clara Study Area	Downtown San José Study Area	28th Street Study Area	Combined Study Area Total
Neighborhood Change 1990-2015				
Urban Displacement Project Typology (a)	Unavailable (Classified as College Town)	Ongoing Gentrification/ Displacement	At-Risk of Gentrification/ Displacement	*See station specific columns*
Existing Households Potentially At Risk of Displacement				
Total Households	1,492	6,509	6,437	*14,438*
Number of Severely Housing Cost Burdened Renter Households (b)	338	1,284	1,207	*2,829*
Number of Severely Housing Cost Burdened Homeowner Households (with a mortgage) (b)	43	173	405	*621*
Existing Housing Stock Potentially At Risk of Conversion to Market Rate				
Total Housing Units	1,614	7,087	6,581	*15,282*
Deed-Restricted Units Expiring Before 2029 (c)	20	256	0	*276*
Rent-stabilized Units (c)	0	2,900	992	*3,892*
Mobilehome Park Units (c)	0	0	427	*427*
Naturally Occurring Affordable Housing (NOAH) Apartment Units (d)	221	2,282	1,194	*3,697*
Pre-World War II Housing Units (e)	420	1,884	1,778	*4,082*

Note: The Affordable Housing Study Areas ("study areas") were defined by aggregating Census Block Groups located within approximately a half-mile radius from the stations.
(a) The Urban Displacement Project typology is available at: http://www.urbandisplacement.org/map/sf.
(b) The U.S. Housing and Urban Development (HUD) defines a household as severely cost-burdened if more than 50 percent of household income is spent on housing costs. These numbers are based on U.S. Census ACS 5-year estimates, 2012-2016.
(c) Based on data provided by the cities of San José and Santa Clara. Santa Clara does not have a rent stabilization ordinance. For Downtown San José and 28th Street station areas, note that some rent-stabilized units may also be counted as Naturally Occurring Affordable Housing units.
(d) One- and two-star rated multifamily rental properties as tracked by the Costar Group is used as a proxy for NOAH. For Downtown San José and 28th Street station areas, note that CoStar's inventory of one- and two-star multifamily rental units likely includes rent-stabilized units.
(e) Based on U.S. Census ACS 5-year estimates, 2012-2016.
Sources: Urban Displacement Project, 2016; U.S. Census ACS 5-year estimates, 2012-2016; City of San José, 2018; City of Santa Clara, 2018; CoStar, 2018; Strategic Economics, 2018.

Supporting Local Economic Development

The TOC Strategy Study will support the Cities' economic development goals in a variety of ways. The recommended land use policies and access improvements will help the station areas absorb new jobs with fewer impacts on traffic and parking demand. Businesses will benefit from an increase in foot traffic and buying power as new TOD brings additional workers and residents to the station areas. Bicycle and pedestrian improvements will make the streets more pedestrian-friendly, which helps support successful commercial districts. Residents will benefit from expanded opportunities for local entrepreneurship, improved access to local and regional opportunities for employment and education, and reduced transportation costs.

At the same time, future development may result in displacement and/or disruption to existing businesses, while some small, local businesses may find the commercial space provided in new buildings to be unaffordable or not usable. In order to maximize the potential benefits of TOD and mitigate potential disruption and displacement effects, policies and programs are needed to:

- **Support and retain small and microbusinesses.** For example, this includes targeted assistance to businesses that are displaced by TOD, incentives for development to provide appropriate space for small businesses, and expanded technical and financial assistance programs.[22]
- **Market and promote local business districts and local cultural heritage.** This includes promoting the Latino and Portuguese cultural identities of the East Santa Clara/Alum Rock Avenue corridor; building a strong brand identity for Downtown San José; and developing branding and programming for the distinct nodes within the Santa Clara station area.
- **Provide enhanced maintenance services and programming.** Services such as street and sidewalk cleaning, public safety ambassadors, landscaping and other streetscape beautification, and programmed activities in parks and plazas can help make the station areas more attractive for residents, workers, and visitors.

Managing Transportation Demand and Enhancing Mobility

In order to maximize the benefits of TOCs, policies and programs are needed to encourage residents, workers, and visitors to walk, bicycle, or ride transit instead of drive. Examples of transportation demand management (TDM) programs include subsidized transit passes, car share memberships, carpool/vanpool subsidies, or other incentives for workers and residents to reduce driving in single-occupancy vehicles. The TOC Strategy Study also recommends programs and policies to help make the best use of the existing parking supply in each station area, such as managing parking as a shared resource within districts and right-sizing parking requirements for new development.

Together, these programs and policies can provide a broader range of mobility options, enable healthier lifestyles, and reduce greenhouse gas emissions. In addition, TDM and parking management programs create value by reducing parking demand and facilitating higher-density TOD. Reducing parking demand decreases the cost of TOD by as much as $45,000-$60,000 per parking space and allows developers to maximize the amount of built space dedicated to housing and employment uses.

[22] Detailed recommendations related to supporting and retaining small businesses are provided in an appendix to the TOC Strategy Study.

V. OPPORTUNITIES AND CHALLENGES FOR IMPLEMENTATION

This section describes the key opportunities and challenges for implementation, based on the consultant team's analysis and input from City departments, the TOC Strategy Study Technical Advisory Group, and VTA's BART Phase II Community Working Groups.

Opportunities

- **There is an opportunity to capture some of the value that the introduction of BART service – combined with other public investments and supportive land use policies – will create in order to help pay for implementation of the TOC priorities.** The station areas are already attracting major development proposals in anticipation of BART's completion. As described above, analysis of market demand and physical capacity found that there is potential for a total of 45 million square feet of new development in the station areas by 2040. Experience from the East Bay also shows that properties near BART can command a significant price premium (Figure 10). By establishing TOC financing districts as soon as possible, the Cities can capture some of the value that BART will create in order to pay for infrastructure improvements, affordable housing, and other public investments.

- **TOD will generate substantial fiscal benefits for the Cities.** The level of development envisioned in the Study are expected to generate increased revenues for the Cities' General Funds that will outweigh the costs of serving new households and workers, resulting in significant net fiscal benefits. At build-out of the development scenario in 2040, annual net fiscal benefits are projected to total $17.2 million per year for the City of San José's General Fund and million per year for the City of Santa Clara's General Fund.

- **VTA's future TOD sites, and other major opportunity sites in the station areas, represent an opportunity to kickstart implementation.** For example, TOD on VTA sites could generate new revenues for VTA and the Cities, provide affordable housing over and above the Cities' requirements,[23] and contribute to improved station access or other needed infrastructure improvements. Other large opportunity sites represent an opportunity for the Cities to negotiate directly with developers to participate in implementation (e.g., by joining TOC financing districts).

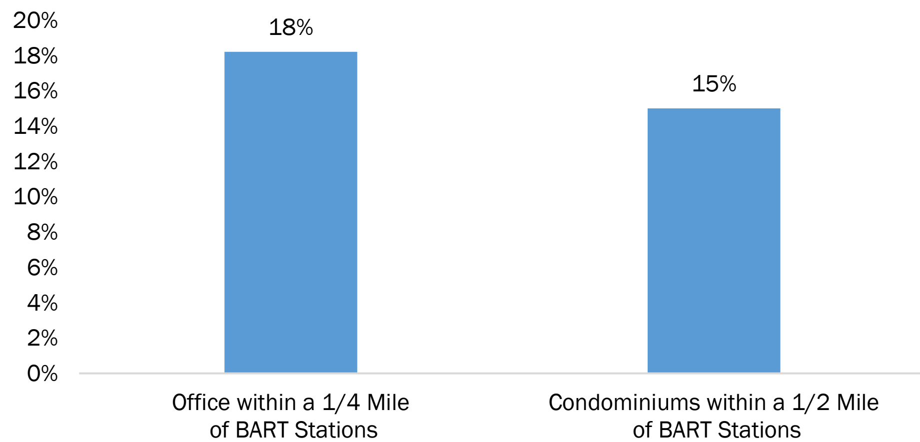
- **The Cities are already starting to implement many of the TOC implementation priorities.** The For example, City of San José is already starting to incorporate projects recommended in the Study into transportation plans (such as En Movimiento, the transportation plan for East San José). The City of San José is also in the process of implementing new programs and funding sources for affordable housing (such as a commercial linkage fee), with the goal of building 10,000 new affordable housing units between 2017 and 2022. The City of Santa Clara is in the process of drafting area plans to support increased densities and an improved pedestrian

[23] In accordance with VTA's Joint Development policy.

environment in Downtown Santa Clara and on El Camino Real, and working to increase the supply of affordable housing in the station area by implementing

- **The State of California has recently passed and is currently considering new tools to finance infrastructure and affordable housing.** The state passed a suite of new affordable housing bills in the 2017 fiscal year that created new funding sources for affordable housing. The legislature is currently considering bills to expand and incentivize the use of tax increment financing.

FIGURE 10. OFFICE AND CONDOMINIUM VALUE PREMIUMS NEAR EAST BAY BART STATIONS



Percentage difference in office rents/condominium values, compared to locations more than ½ road miles from a BART station for office and more than 5 road miles from a BART station for multi-family residential.
Source: Strategic Economics, 2015.

Challenges

- **Significant upfront improvements are needed in order to accelerate development and improve access to the stations.** The "high priority" improvements identified in Section II are intended to improve access to the station for existing neighborhoods and make the station areas more attractive for development. Paying for these improvements will require identifying funding sources that do not rely on new development, and/or funding sources that can be used to support bond financing (i.e., the issuance of debt that is paid back over time).

- **Relying on project-by-project negotiations or development fees to provide improvements can make it challenging to implement district-scale improvements, or to provide needed improvements ahead of development.** Currently, the Cities of San José and Santa Clara rely in part on a combination of developer negotiations and impact fees to fund infrastructure improvements and affordable housing.[24] Individual development negotiations create uncertainty for both developers and communities about the benefits that new development is expected to provide. Relying on individual development projects to provide improvements also makes it challenging to implement district-scale improvements (e.g., access or streetscape

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[24] For example, the City of San José 's new Urban Villages Implementation Framework establishes a process for negotiating contributions, and an expected contribution level, for residential development.

(footnote continued)

improvements that serve the entire station area, not just individual development projects), or to provide needed improvements ahead of development. Development fees create more certainty for developers and communities, but cannot be used to pay for existing infrastructure deficiencies and are challenging to use to finance upfront improvements.[25]

- **While new development in the station area is expected to result in a significant net increase in General Fund revenues, the Cities both have many competing priorities that could benefit from increased funding.** Both the City of San José and Santa Clara have identified structural budget deficits and a growing backlog of deferred infrastructure needs. The Cities are relying in part on the revenues raised by new development to help support City services and operations. These budget challenges limit the Cities' ability to contribute General Funds to capital improvements and other implementation priorities, and limit staff's capacity to implement new programs.

- **The feasibility of high-density TOD is currently challenging due to rising land and construction costs.** High-rise office and residential development are particularly challenging in the current market. By establishing TOC financing districts now, the Cities can be well positioned to capture value from new development when market conditions change. At the same time, development contributions must be complemented with other funding sources to ensure that the vision for increased housing and employment growth around the stations can be achieved.

- **Successful implementation will require dedicated City staff time and leadership over an extended period of time.** Historically, redevelopment agencies played a primary role in this type of implementation in California cities. Since the California legislature dissolved local redevelopment agencies in 2011, most cities have struggled to replace the lost funding and dedicated staff focused on implementation activities.

- **VTA's new transit investment is expected to lead to rising home values and rents, and place increased pressure on small businesses.** As described in previous sections of this report, new policies and funding sources are required to both ensure that the future station areas offer housing that is affordable to low- and moderate-income residents, and minimize the displacement and/or disruption of existing small businesses.

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[25] Impact fees are challenging to use to finance debt, because the revenue stream is volatile (highly dependent on the timing and amount of development)

VI. IMPLEMENTATION STRATEGIES

Recognizing the opportunities and challenges described in the previous chapter, VTA and the consultant team developed eight implementation strategies (summarized in Figure 11) This section compares the potential revenues that might be raised to the total costs of needed infrastructure, and discusses each of the eight strategies in detail. While the comparison of costs and revenues is focused on infrastructure and public facilities, the strategies are designed to address the full range of TOC priorities.

FIGURE 11. SUMMARY OF IMPLEMENTATION STRATEGIES

STRATEGIES	IMPLEMENTATION PARTNERS
#1 Establish Community Facilities Districts to leverage contributions from new development	Lead: Cities of San José and Santa Clara Partners: VTA; other property owners; developers
#2 Implement tax increment financing districts, and consider sharing revenues across San José station areas	Lead: Cities of San José and Santa Clara Partners: Other taxing entities (e.g. Santa Clara County)
#3 Work together to identify grants and other upfront funding sources	Lead: Cities of San José and Santa Clara; VTA Partners: Affordable housing developers; potential new entities (e.g. Community Development Corporation)
#4 Engage with local partners to expand community and economic development activities	Lead: Local community groups, institutions, and/or business and property owners Partners: Cities of San José and Santa Clara
#5 Create dedicated staff positions within the Cities of San José and Santa Clara to lead TOC implementation	Lead: Cities of San José and Santa Clara
#6 Establish a framework for ongoing collaboration among the City of San José, the City of Santa Clara, and VTA	Lead: Cities of San José and Santa Clara; VTA
#7 Partner to increase production of affordable housing, preserve existing affordable housing, and prevent displacement of households	Lead: Cities of San José and Santa Clara; VTA Partners: Developers (non-profit and private), potential new entities (e.g. Community Development Corporation)
#8 Establish Shared Mobility Districts to manage parking and provide transportation demand management services	Lead: Cities of San José and Santa Clara Partners: VTA; BART; other property owners

Source: Strategic Economics, 2019.

Comparison of Infrastructure Costs and Potential Revenues

As discussed in Section IV above, the total estimated cost of access, streetscape, and storm drain improvements in the three station areas is $423 million in 2019 dollars. Assuming that projects are built out over time, with the highest priority projects built first, costs could total $750 million through 2040.[26]

Figure 12 shows the total potential revenues for infrastructure and public facilities that could potentially be raised from the strategies in this report, including:

- **TOC financing districts (CFDs and TIF districts):** $375 million, based on preliminary estimates and the assumptions described in the report.
- **VTA's BART Phase II project:** $9 million, in the form of access and streetscape improvements that are part of the BART Phase II project. [27]
- **Other:** $367 million, the remaining gap in funding that would need to be covered by other sources such as grants, developer contributions (above and beyond CFD special tax payments), and the Cities' Capital Improvement Programs (CIPs).

The biggest need is for upfront financing to pay for the highest priority infrastructure and access improvements that will enhance access to the stations and accelerate new development. Even assuming that TOC financing districts are put in place quickly, they will not generate substantial revenues (or allow for the issuance of bonds) until significant development has already occurred (Figure 13).

The strategies described in below provide more detail on the potential for CFDs and TIF districts, as well as recommendations for how the Cities, VTA, and other stakeholders can work together to raise the remaining funding needed for infrastructure and public facilities improvements. The strategies are also intended to help address other implementation priorities, including increasing production of affordable housing, reducing household displacement, supporting local economic development, managing transportation demand, and enhancing mobility.

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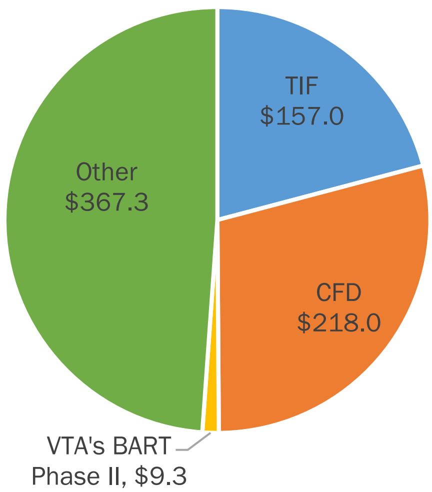
[26] Assumes 4.2 percent annual cost escalation (Caltrans standard rate).

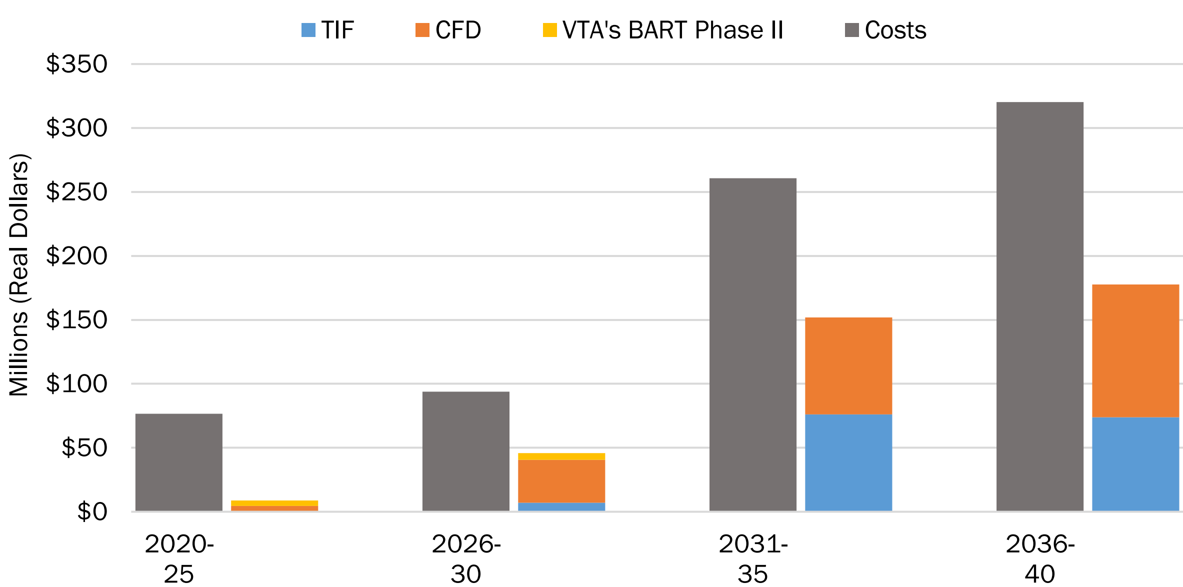
[27] Assumes contributions from VTA's BART Phase II are completed in 2020-2030; 4.2% annual cost escalation. In addition to the contribution to access and streetscape improvements, VTA has agreements in place to build out the Five Wounds trail from East Santa Clara Street to Julian Street, a contribution that is expected to total about $4.4 million in 2019 dollars, or about a quarter of the cost of building out the trail from Lower Silver Creek to US-280.

FIGURE 12. ESTIMATED POTENTIAL FUNDING BY SOURCE THROUGH 2040 (MILLIONS, REAL DOLLARS)



Notes:
Assumes high-priority access and streetscape improvements are completed in 2020-2030; other access, streetscape, and storm drain improvements phased in between 2031 and 2040; 4.2% annual cost escalation.
TIF includes bond issuances in 2031 and 2036, plus excess pay-as-you-go revenues; CFD includes bond issuances in 2026, 2031, and 2036, plus excess pay-as-you-go revenues.
Assumes contributions from VTA's BART Phase II are completed in 2020-2030; 4.2% annual cost escalation.
Source: Strategic Economics, 2019.

FIGURE 13. ESTIMATED ACCESS, STREETSCAPE, AND STORM DRAIN COSTS OVER TIME COMPARED TO POTENTIAL CONTRIBUTION FROM EIFD, CFD, AND VTA'S BART PHASE II (MILLIONS, REAL DOLLARS)



Notes:
Assumes high-priority access and streetscape improvements are completed in 2020-2030; other access, streetscape, and storm drain improvements phased in between 2031 and 2040; 4.2% annual cost escalation.
EIFD includes bond issuances in 2031 and 2036, plus excess pay-as-you-go revenues; CFD includes bond issuances in 2026, 2031, and 2036, plus excess pay-as-you-go revenues.
Assumes contributions from VTA's BART Phase II are completed in 2020-2030; 4.2% annual cost escalation.
Source: Strategic Economics, 2019.

Strategy #1: Establish Community Facilities Districts to Leverage Contributions from New Development

Lead Agencies: Cities of San José and Santa Clara

Partners: VTA, Other Property Owners, Developers

A Mello-Roos Community Facilities District (CFD) is a special taxing district formed to finance improvements to public facilities. CFDs would apply only to new development and would not result in a tax increase for existing properties. CFDs revenues could be used to pay for access, streetscape, or other infrastructure improvements in the station areas, as well as for specified services which could include transit operations and maintenance.[28]

A CFD special tax in the three station areas could raise an estimated $218 million for infrastructure improvements through 2040, assuming all new development envisioned in the TOC development scenario were subject to the special tax.[29] Figure 14 shows the estimated CFD funding available for infrastructure by station area. Because the CFD is assumed to be charged on a per-square foot basis, the magnitude of revenues is related to the amount of development projected to occur in each station area. For example, a CFD in Downtown San José would generate the most revenue, because that is where the most development is expected to occur.

The Cities of San José and Santa Clara should explore establishing policies that incentivize new development to participate in a CFD, by making participation in a CFD a condition of approval for projects that exceed the heights, densities, or other requirements that are allowed by right. For example, the City and County of San Francisco has implemented this policy as part of the Central SoMa Plan (see case study below).[30] Individual CFDs should be established in each station area to ensure a relationship between the properties paying the special tax and the benefit received.[31]

CFDs can be structured as non-contiguous districts, and parcels may be annexed into the district as new development occurs. For example, VTA could help accelerate the formation of a district by working with the cities to establish CFDs on the agency's joint development sites. Other sites could be annexed into the CFDs later, as additional development occurs in the station areas.

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[28] A CFD may be used to finance the "purchase, construction, expansion, improvement, or rehabilitation of any real or other tangible property with an estimated useful life of five years or longer, or may finance planning and design work that is directly related to the purchase, construction, expansion, or rehabilitation of any real or tangible property." A CFD may finance facilities including, but not limited to: local parks and open space, libraries, childcare facilities, utilities (e.g. undergrounding of water transmission, natural gas pipeline, telephone, or electrical energy facilities), and flood and storm protection facilities. A CFD may also be used to finance certain services, such as police protection services, fire protection and suppression services, maintenance of parks and open space, flood and storm protection services, and maintenance and operations of any other facilities owned by the local agencies involved in the formation of the CFD, to the extent that those services are in addition to those provided in the territory of the district before the district was created. Bonds may be issued against CFD revenues to finance capital improvements. Source: California Government Code Sections 53313 and 53313.5

[29] This estimate is based on conservative assumptions about special tax rates and bond issuances, and assumes that 20 percent of revenues would be set aside to help pay for operations and maintenance of the BART extension. See Appendix A for discussion of methodology and key assumptions.

[30] Typically, a CFD requires approval by two-thirds of property owners so long as there are fewer than 12 registered voters living within the proposed boundary. If there are 12 or more registered voters living within the district, the formation of a CFD requires two-thirds voter approval. In the case of Central SoMa, property owners must unanimously approve their annexation into the CFD.

[31] Note however that – in contrast to impact fees and special assessment districts – CFDs do not require either a direct "nexus" between the entities paying the fee and the benefit they receive, or a "special benefit" to the property owners subject to the assessment.

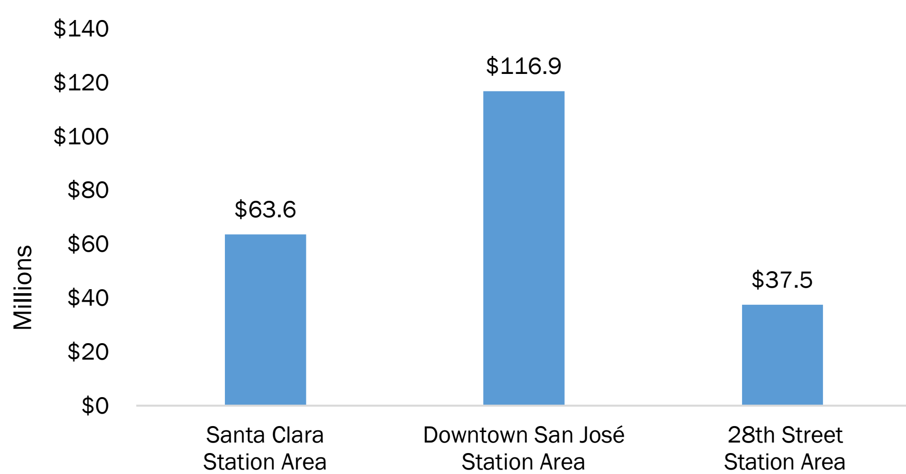
Some of the benefits of implementing CFDs throughout the corridor include:

- **A CFD provides certainty for communities and developers about the public improvements that will be funded, and the amount that developers will be required to contribute.** CFDs create an ongoing revenue stream to help fund public improvements, giving communities and developers confidence that desired improvements will be made. CFDs also reduce the uncertainty that developers face in planning and financing their projects, by providing clarity about the amount that development projects will be required to contribute to public benefits. In turn, reduced uncertainty helps reduce the time and cost of new TOD.

- **CFD revenues could be used to issue bonds in order to secure financing for major capital improvements.** Issuing bonds would allow the cities to pay for major projects more quickly, as opposed to waiting for CFD revenues to accrue over time before making larger investments. Note, however, that CFDs will not generate substantial revenues (or allow for the issuance of bonds) until significant development has already occurred

- **In addition to paying for local infrastructure improvements, CFD revenues could also help fund operations and maintenance of the BART extension.** For example, a CFD special tax charged on new development in the three station areas could raise $23 million over 20 years to help pay for operations and maintenance of the BART extension, assuming that 20 percent of revenues were set aside for this purpose.

FIGURE 14. ESTIMATED CFD FUNDING AVAILABLE FOR INFRASTRUCTURE THROUGH 2040 (REAL DOLLARS)



Excludes 20% set-aside for transit operations and maintenance.
Assumes CFD is established 2020 and charged on all new development; CFD base special tax rates range from $0.13-$0.50 per square foot, with a 2 percent annual escalation rate; bond issuances in 2026, 2031, 2036.
See Appendix A for additional discussion of methodology and key assumptions.
Source: Strategic Economics, 2019.

KEY ISSUES FOR IMPLEMENTATION

The analysis conducted for this report is based on conservative assumptions about special tax rates, the timing of district formation, and bond issuances. However, these and other issues will need to be further explored as implementation proceeds. In particular, some of the key issues for implementation include:

- **Implementing entities:** Formation of a CFD would most likely be initiated by the Cities of San José and Santa Clara, respectively.[32] However, VTA could potentially participate through formation of a joint powers authority.

- **Timing of implementation:** The revenue estimates shown above assume that CFDs would be formed in 2020 and apply to all new development entitled after that time. Establishing CFDs in or around 2020 would help maximize the amount of revenue that could be raised, and enable bonds to be issued sooner to help pay for needed improvements.

- **Defining appropriate rates:** the special tax rates may be set on any reasonable basis determined by the local legislative body (e.g., on the basis of building area, parcel size, or linear feet of parcel frontage), except that the tax cannot be *ad valorem* (based on property value). The revenue estimates above assume rates ranging from $0.13-$0.50 per square foot. This would amount to less than 0.1 percent of the assessed value of new development, which is not expected to unduly affect property owners' tax burden or the feasibility of new development.[33] However, additional analysis would be required to determine appropriate rates.

- **Mechanism for incentivizing participation of new development:** As discussed above, cities including San Francisco have established programs that incentivize new development to participate in a CFD, by making participation in a CFD a condition of approval for projects that exceed the base heights or densities allowed in the zoning code. Typically, this tool is easiest to implement in association with an increase in heights or densities (i.e., upzoning). The Cities of San José and Santa Clara will need to examine their existing land use and zoning policies to determine the best mechanism for enacting similar programs.

- **Interaction with other required developer contributions:** Further analysis will be required to determine how the CFD interact with other required developer contributions, such as existing impact fees and the City of San José's Urban Village amenities payment.

CASE STUDY: SAN FRANCISCO CENTRAL SOMA PLAN IMPLEMENTATION STRATEGY

The City and County of San Francisco adopted the Central SoMa Plan in December 2018.[34] This plan for the Central South of Market neighborhood is intended to accommodate growth around the future Central Subway extension. The plan allows for 16 million square feet of new housing and employment space and a $2 billion public benefits package, including affordable housing (33 percent of new housing), open space, street and infrastructure improvements, cultural preservation, and community services (see Figure 15).[35]

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[32] CFDs can be initiated by Cities, Counties, special districts (e.g., fire, water, parks, community services districts), school district, joint powers authorities, or any other local government authorized under state law.

[33] As a rule of thumb, total taxes and assessments on property – including CFD special tax rates – should not exceed two percent of total assessed property value. Based on an initial scan of selected parcels in the three station areas, total existing taxes and assessments appear to range from approximately 1.3 to 1.5 percent of assessed value, suggesting there may be room for an additional special tax measure.

[34] An updated version of the Central SoMa Plan, including revisions that were made between the 2016 Draft Plan and the final adoption of the plan in December 2018, has not yet been published online. Once available, it will be accessible at the following link: https://sfplanning.org/central-soma-plan

[35] "Central SoMa Draft Plan", City and County of San Francisco, 2016, available at: http://default.sfplanning.org/Citywide/Central_Corridor/Central_SoMa_Plan_full_report_FINAL.pdf

To realize this vision, the Central SoMa Plan's Implementation Strategy calls for the adoption of new funding sources, including a CFD and two new impact fees. Following the adoption of the Central SoMa Plan, the CFD was officially approved in January 2019, and is expected to generate up to $350 million, or 17 percent of the total cost of the public benefits package. Revenues from the Central SoMa CFD can be used for the costs of acquisition and construction of, and improvements to, the following types of facilities:

- Transit facilities (i.e. local and regional transit infrastructure)
- Complete streets (i.e. bicycle, pedestrian, and transit infrastructure)
- Parks and recreation centers
- Environmental sustainability projects (i.e. green stormwater infrastructure, water energy and conservation improvements, pollution control improvements, etc.)
- Historic preservation
- Sea level rise adaptations

The Central SoMa CFD revenues may also be used for certain service and maintenance costs, including park programming and activation, neighborhood stabilization, small business development, and operation and maintenance of publicly-owned infrastructure.[36]

Participation in the CFD is required for commercial development and for-sale residential development that exceed certain height and density limits, as defined in the San Francisco Planning Code.[37] The CFD was originally intended to apply to rental residential development as well, but in light of the rapid increase in construction costs between the time the plan was first published (August 2016) and its final approval (December 2018), the San Francisco Board of Supervisors exempted rental housing due to concerns over financial feasibility.[38] This exemption may leave a significant gap in the overall financing plan. In addition to the CFD, the Central SoMa plan includes additional requirements for new development, such as on-site developer contributions and various impact fee payments, which also will help pay for the public benefits package.

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[36] "Resolution of Intention: Establishing the Central SoMa Special Tax District, File No. 180622 Resolution No. 375-18", City and County of San Francisco, November 2018, and "Ordinance levying special taxes within City and County of San Francisco Special Tax District No. 2018-1 (Central SoMa), Ordinance No-21-19, File No. 181172", City and County of San Francisco, January 2019.

[37] "Central SoMa Community Facilities District Program", San Francisco Planning Code, Section 434.

[38] "Case Number 2011.1356U Approval of the Implementation Program related to the Central SoMa Plan - Changes to the Plan since February 15, 2018", City and County of San Francisco Planning Department, May 2018.

FIGURE 15. CENTRAL SOMA TODAY (LEFT) AND CENTRAL SOMA 3-D MODEL OF POTENTIAL DEVELOPMENT (RIGHT)

Source: City and County of San Francisco, Central SoMa Plan, available at: https://sfplanning.org/central-soma-plan (left) and http://default.sfplanning.org/Citywide/Central_Corridor/Central_SoMa_Plan_full_report_FINAL.pdf (right)

Strategy #2: Implement Tax Increment Financing Districts, and Consider Sharing Revenues Across San José Station Areas

Lead Agencies: Cities of San José and Santa Clara

Partners: Other Taxing Entities (e.g. Santa Clara County)

A tax increment financing (TIF) district redirects incremental increases in property tax revenues that occur within a designated geographic area to help fund infrastructure, other public facilities, and affordable housing. TIF does not add any new fee or tax obligations to property owners. Instead, TIF reallocates money from future revenues generated by the existing property tax rate, above and beyond what taxing entities currently receive. Cities, counties, and other taxing entities may choose to contribute to a TIF district.[39]

California state law currently authorizes the use of several TIF tools, of which Enhanced Infrastructure Financing Districts (EIFDs) are the most flexible and widely used. Jurisdictions that have established EIFDs in the last several years include the Cities of La Verne, West Sacramento, and San Diego (see case study below). There are also several proposals currently under consideration in the state legislature that could enable new forms of TIF.

Based on preliminary assumptions, TIF districts in the three station areas could generate an estimated $157 million for infrastructure improvements through 2040.[40] In addition, TIF districts could generate more than $18 million in revenues for affordable housing through 2040.[41] Figure 16 shows estimated TIF funding that could be available for infrastructure improvements by station area. The highest

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[39] Under current state law governing the use of EIFDs, school districts may not contribute to a TIF district.

[40] See Appendix A for methodology and key assumptions.

[41] Assuming that 20 percent of EIFD revenues were set aside for affordable housing.

revenues would be generated in Downtown San José, where the greatest amount of new development is expected to occur.

Establishing one or more TIF districts in the corridor would have multiple benefits, including:

- **TIF districts could allow revenues to be used across station areas.**[42] The City of San José's Redevelopment Agency pioneered the use of TIF to finance improvements across different districts in the station areas in 1981, when the agency merged its redevelopment project areas. This innovative strategy allowed revenues generated in other areas to be used to support Downtown revitalization efforts.[43] Today, there is an opportunity for the City to use a similar strategy. For example, a district that encompassed both the Downtown San José and 28th Street station areas could take advantage of the momentum occurring in Downtown, where most of the new development – and TIF revenue generation – is expected to occur.[44] Revenues could pay for affordable housing, access and streetscape improvements, and other infrastructure in both station areas. In turn, these investments would help accelerate development throughout the corridor. This approach would be particularly helpful in the 28th Street station area, where major new investments are required but individual development projects are less likely to be able to support the provision of public improvements than in the other station areas.

- **Establishing new TIF districts could help address housing cost and displacement concerns by creating a dedicated source of funding for affordable housing.** Any new TIF districts established in the station areas should include a substantial set aside (20 percent or more) for affordable housing.

- **By establishing TIF districts, the cities could signal a strong public commitment to improving the station areas and help attract new private investments and other funding sources.** Establishing one more TIF districts in the corridor would send a signal to private investors and potential funders about the strength of the local commitment to supporting successful TOCs. In turn, this public commitment could incentivize developers to participate in a CFD. A TIF district could also help attract Opportunity Zone investments by demonstrating the public sector's intention to make needed improvements.[45] TIF revenues could also help fund the local match typically required for state and federal grants. Finally, legislative proposal currently

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[42] The EIFD enabling legislation provides flexibility for how the boundaries are set; districts may even include non-contiguous parcels.

[43] SPUR, "Shaping Downtown San José: The Quest to Establish an Urban Center for Silicon Valley," Urbanist, April 4, 2013, https://www.spur.org/publications/urbanist-article/2013-04-04/shaping-downtown-san-jose.

[44] Note that the majority of the Downtown San José station area is part of the former San José Redevelopment Agency Merged Project Area. Within this area, property tax increment revenues are deposited into a Redevelopment Property Tax Trust Fund and used to pay the existing obligations of the Redevelopment Successor Agency. Any remaining funds in the trust fund are distributed to the local agencies in the project area and are known as "residual" payments. In FY 2017-2018, the Successor Agency reached a sufficiency of funds and began distributing residual revenues to the taxing entities. Unless assessed property values in the Merged Project Area decline significantly below the current value, it is expected that existing tax increment revenues will continue to be sufficient to pay the Successor Agency's obligations. Therefore, it assumed that the new property tax revenues generated by the TOD development scenarios will be allocated to the taxing entities, including to the City's General Fund, and available to be allocated to an EIFD or other TIF district.

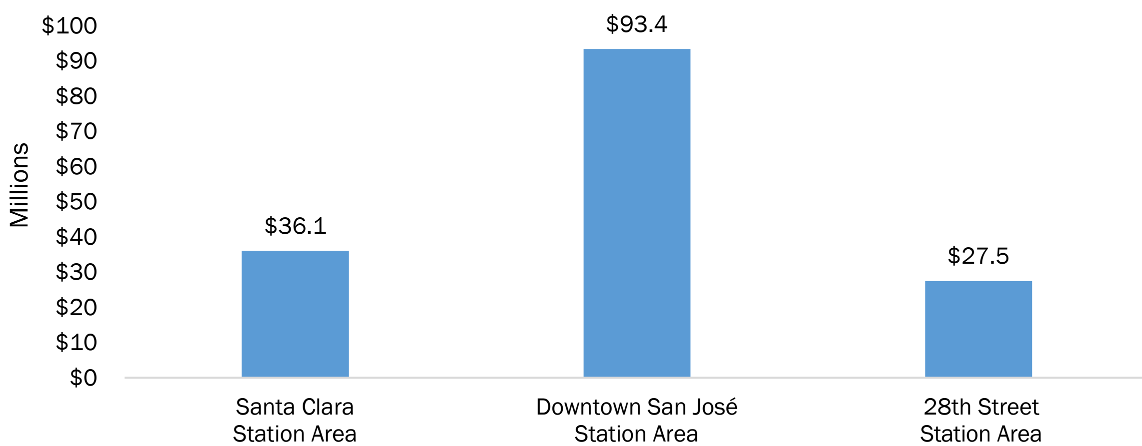
[45] The federal Opportunity Zone program was created as part of the 2017 tax bill. It allows investors to receive tax benefits in exchange for investing in businesses or real estate located in low-income Census Tracts designated as Opportunity Zones by the governor of each state. Eleven Census Tracts in San José have been designated as Opportunity Zones, including Tracts near the future Downtown San José, Santa Clara, 28th Street, and Berryessa BART stations.

(footnote continued)

under consideration by the state legislature (SB 5 and AB 11, discussed in more detail below) could also enable TIF districts to access state funds.[46]

- **TIF would create a dedicated source of revenue for needed investments that will help improve local quality of life, attract additional development, and result in faster growth in revenues for the cities' General Funds.** Assuming the public investments described in the TOC Strategy Study are completed, the three station areas could attract 45 million square feet of new TOD by 2040. If each City dedicated 25 percent of incremental property tax revenues to an EIFD, net annual General Fund revenues would total $8.3 million a year for the City of San José and $1.7 million a year for the City of Santa Clara.
- **TIF revenues could be used to issue bonds in order to secure financing for major capital improvements:** TIF would enable the taxing entities to issue bonds against future revenues, allowing the cities and their partners to invest sooner in needed improvements (as opposed to waiting for property tax revenues to accrue to each cities' General Fund).

FIGURE 16. ESTIMATED TIF FUNDING AVAILABLE FOR INFRASTRUCTURE THROUGH 2040 (REAL DOLLARS)



Excludes 20% set-aside for affordable housing.
Assumes TIF district is established 2025 and only applies to parcels where new development occurs; Cities of San José and Santa Clara each contribute 25% of property tax, property tax in-lieu of vehicle license fee, and property tax residual generated within the district to the district; bond issuances in 2031 and 2036.
See Appendix A for additional discussion of methodology and key assumptions.
Source: Strategic Economics, 2019.

KEY ISSUES FOR IMPLEMENTATION

The analysis conducted for this report is based on conservative assumptions about contributions from local taxing entities, the timing of district formation, and bond issuances. However, these and other issues will need to be further explored as implementation proceeds. In particular, some of the key issues for implementation include:

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[46] In the form of transfers from school district and/or County Educational Revenue Augmentation Fund (ERAF) revenues, which the state would reimburse.

(footnote continued)

- **Participation of other taxing entities:** EIFDs must be initiated by a City or County, and require approval by all affected tax entities.[47] The revenue estimates above assume that only the Cities of Santa Clara and San José would participate in the TIF district(s), and that they each contribute 25 percent of the property tax increment generated within the station areas.[48] However, the City of San José only receives about 12 percent of the property tax revenue generated within the station areas, while the City of Santa Clara receives just over 10 percent. Securing the participation of other taxing entities – such as Santa Clara County, which receives approximately 15 percent of the property tax revenue from the station areas – could significantly increase the amount of revenue that TIF districts could raise.

- **Role of the Public Financing Authority:** In order to create an EIFD, the affected taxing entities must create a public financing authority (PFA) to serve as the governing board of the district, with representation from each taxing entity's legislative body and members of the public. A PFA may also be empowered to access other funding sources, such as special tax, assessment, and grant revenues, and thus could potentially play a significant role in coordinating funds and leading project implementation.

- **Timing of implementation:** This analysis assumes that a TIF district would be created in 2025. However, earlier formation the district would allow the district to increase the amount of revenues that the district generates. Earlier implementation would also enable for bond issuances to occur earlier, allowing important improvements to be paid for sooner.

- **Structure of the tax increment contribution and district boundaries:** The current EIFD tool would provide the cities and other participating taxing entities with significant flexibility to structure an EIFD to protect their General Funds and meet other goals. For example, the taxing entities can each choose how much of increment to dedicate to an EIFD, and the share of increment can vary over time. The revenue estimates shown above assume that the cities would each contribute 25 percent of incremental tax revenues every year; however, the cities could choose to contribute a higher percent of revenues in earlier years to jumpstart improvements, and then reduce their contribution over time. EIFDs may also include non-contiguous parcels. For example, the Cities could choose to only include parcels in an EIFD that are likely to be redeveloped, in order to project the General Fund.

- **Potential to leverage state funds**: In the 2019 session, the state legislature is considering two bills that would create a mechanism for the state to contribute funds to a TIF districts. SB 5 would allow TIF districts to apply to the state for a contribution, which would take the form of transferred County Educational Revenue Augmentation Funds (ERAF) that the state would then reimburse. AB 11 would effectively allow cities and counties to create new redevelopment agencies, subject to state approval; the agencies could access school district and community college revenues, which the state would backfill. AB 11 and SB 5 would require that 30 to 50 percent of revenues be set aside for affordable housing, respectively. Both bills would prioritize

[47] Cities, counties, and special districts may choose to allocate tax increment to an EIFD; however, and EIFD may not capture increment from school districts, community college districts, or Educational Revenue Augmentation Funds (ERAF).

[48] Including property tax, property tax in-lieu of vehicle license fee revenues, and in the case of San José, property tax residual payments from the Redevelopment Property Tax Trust Fund.

(footnote continued)

districts that would support TOD, reduce greenhouse gas emissions, and promote other state goals.[49]

CASE STUDY: CITY OF LA VERNE METRO GOLD LINE TOD ENHANCED INFRASTRUCTURE FINANCING DISTRICT

EIFDs were first authorized by the state of California in 2014. Since that time, several jurisdictions have established EIFDs, including West Sacramento and San Diego. One of the most recent examples is in the City of La Verne, located in Los Angeles County. In October 2017, after an 18-month process, the City adopted an EIFD that covers 46 acres surrounding the City's future Metro Gold Line light rail station (see Figure 17), and an additional non-contiguous 65-acre subarea near the University of La Verne's West Campus. Transit service to the station is expected to begin in 2026.[50]

Leading up to the adoption of an EIFD, the City completed an extensive planning process for the area surrounding the future station. In 2014, the City adopted a specific plan that called for higher density, mixed use, transit-oriented development.[51] However, in order to enable TOD in a low-density, car-oriented place such as La Verne, significant infrastructure and access improvements would be necessary. To fund these improvements, the City adopted an EIFD in November 2017. The EIFD Financing Plan includes 14 projects with a total cost of $33 million, including a pedestrian bridge, traffic and streetscape improvements, and various utility improvements (sewer, water, and wastewater).

The City of La Verne has chosen to dedicate 100 percent of its property tax increment in the EIFD subareas to the EIFD. Increment from property tax in-lieu of VLF is excluded. If and when projects identified in the EIFD Financing Plan are fully funded, the share of tax increment diverted to the EIFD is set to return to the City's General Fund.[52] The City of La Verne is the only taxing entity currently contributing to the EIFD. However, the County has expressed interest joining the EIFD, due to (1) benefits it would accrue from the pedestrian bridge connecting the station to the nearby County-owned fairgrounds; and (2) the unusually high share of the property tax received by the City of La Verne (18 percent).

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[49] Proposed state legislation includes SB 5 (Beall and McGuire) and AB 11 (Chiu). See "SB-5 Affordable Housing and Community Development Investment Program (2019-2020)", California Legislative Information, available at: https://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml?bill_id=201920200SB5;
and "2019 AB- 11 Community Redevelopment Law of 2019 (2019-2020)", California Legislative Information, available at: https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200AB11

[50] "City of La Verne Enhanced Infrastructure District #1 Final Adopted Infrastructure Financing Plan", City of La Verne, October 2017, Available at: https://www.ci.la-verne.ca.us/index.php/documents/community-development/eifd-documents/740-la-verne-final-adopted-ifp/file

[51] "Old Town La Verne Specific Plan", City of La Verne, March 2013. Available at: https://www.cityoflaverne.org/otlvsp.pdf

[52] "City of La Verne EIFD IFP Fiscal Impact Analysis", Kosmont Companies for the City of La Verne, September 2018, Available at: https://www.ci.la-verne.ca.us/index.php/documents/community-development/eifd-documents/916-la-verne-eifd-fiscal-analysis-091718/file

FIGURE 17. RENDERING OF THE FUTURE LA VERNE METRO STATION IN LA VERNE, CA

Source: Metro Gold Line Foothill Extension Construction Authority, available at: https://foothillgoldline.org/cities_stations/la-verne/

Strategy #3: Work Together to Identify Grants and Other Upfront Funding Sources

Lead Agencies: Cities of San José and Santa Clara, VTA

Support: Affordable housing developers, potential new entities (e.g., CDC)

While CFDs and TIF districts would contribute substantial resources to TOC implementation, additional funding will still be needed. In particular, there will be a need to identify upfront funding sources to make the highest priority improvements in the station area, which would ideally completed BART service begins. The Cities and VTA should work together to:

- **Prioritize key station area projects in the Cities' plans and Capital Improvement Programs (CIPs):** For example, many of the access projects identified in this Study are already being incorporated into the City of San José's *En Movimiento* transportation plan for East San José. In addition to continuing to carry forward projects into City land use and transportation plans, it will be critical to ensure that projects are prioritized in the cities' respective CIPs and capital budgets, which are the documents that guide the cities in the planning, scheduling, and budgeting of capital improvement projects.

- **Identify eligible projects for competitive grant programs:** The cities and VTA should work together to monitor funding availability for grant programs that may be appropriate for projects identified in this Study. In particular, the agencies should collaborate to determine which projects may be eligible for competitive grant programs administered by VTA, such as the Measure B Bicycle and Pedestrian Program and One Bay Area Grant (OBAG) 2 County Programs.

- **Integrate projects to leverage multiple funding sources**: Examples of types of projects that could be combined to access a broader range of funding sources include:

- *Projects that include pedestrian improvements and green stormwater elements (e.g., streetscape redesigns that involve bioswales and other green streets improvements)* may be able to access both bicycle/pedestrian improvement grants and urban stormwater management grants.[53] These types of improvements could also help meet the cities' green infrastructure commitments.[54]
- *Projects that include affordable housing and pedestrian, bicycle, or transit access improvements* may be eligible for state grant programs intended to encourage affordable housing in infill and transit-oriented locations, such as the Affordable Housing Sustainable Communities (AHSC) and the Infill Infrastructure Grant (IIG) programs.
- *Community-led projects in the 28th Street station area that integrate environmental, health, and social-economic benefits.* The 28th Street station area may be eligible for The Transformative Climate Communities (TCC) program, administered by California's Strategic Growth Council, provides competitive grants for community-led development and infrastructure projects that are focused on achieving environmental, health, and economic benefits.[55]

- **Collaborate on grant applications:** For example, VTA could write letters of support or otherwise advocate for grant applications submitted by the cities. In some cases, it may be appropriate for VTA to dedicate staff time to assist with grant applications for projects that are critical to the success of transit and TOCs.
- **Identify projects that may be eligible for VTA's upcoming Valley Transportation Plan (VTP) 2050 update.** As the Congestion Management Agency for Santa Clara County, VTA is responsible for the countywide long-range transportation plan, which includes a financially-constrained list of transit, bicycle/pedestrian, and street/road projects that reflect the county's funding priorities over the plan's horizon. VTA is currently updating the VTP and receiving project submittals for VTP 2050 until August 31, 2019.[56] Listing projects in the VTP is beneficial because it

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[53] Examples include California's Urban Greening Program and the state's Local Partnership Program. See Appendix B.

[54] For example, the City of San José is in the process of finalizing a Green Stormwater Infrastructure Plan and has committed to spending $100 million over the next decade to reduce sewage spills and the amount of trash flowing into storm drains.

[55] The TCC program, administered by California's Strategic Growth Council, provides competitive grants for community-led development and infrastructure projects that are focused on achieving environmental, health, and economic benefits. Examples of eligible projects include affordable housing, transit, bicycle, pedestrian improvements, and urban greening infrastructure. The TCC program offers both "Implementation Grants" and "Planning Grants." The TCC program prioritizes disadvantaged communities that have been most impacted by pollution, as measured by CalEnviroScreen, the state's Census Tract-level measure of socio-economic and environmental disadvantage. According to the TCC FY 2018-2019 Final Guidelines, places that have a majority of Census Tracts in the top 5 percent of disadvantaged communities are most likely eligible for "Implementation Grants," and places that have a majority of Census Tracts in the top 25 percent of disadvantaged communities are likely eligible for "Planning Grants." Given that several census tracts in and around the 28th Street station are in the CalEnviroScreen top 25 percent, it is possible that projects in this station could be eligible for TCC funding, with a higher chance of eligibility for "Planning Grants." See: California Strategic Growth Council, "Transformative Climate Communities Program FY 2018-2019 Final Guidelines," July 2018, available at: http://sgc.ca.gov/programs/tcc/docs/20180815-TCC_Final_GUIDELINES_07-31-2018.pdf.

[56] "Valley Transportation Plan", Santa Clara Valley Transportation Authority, 2019, available at: http://www.vta.org/projects-and-programs/planning/valley-transportation-plan-2040-vtp-2040; and "VTP 2040: The Long-Range Transportation Plan for Santa Clara County", Santa Clara Valley Transportation Authority, 2014, available at: http://vtaorgcontent.s3-us-west-1.amazonaws.com/Site_Content/VTP2040_final_optimized.pdf

(footnote continued)

demonstrates a public commitment to these projects, formally inserts them into the county and regional funding pipeline, and prioritizes them for existing and future funding.[57]

Appendix B provides a matrix of potential regional, state, and federal grant programs that projects in the station areas may be eligible for.

CASE STUDY: AFFORDABLE HOUSING AND SUSTAINABLE COMMUNITIES (AHSC) PROGRAM

The Affordable Housing and Sustainable Communities (AHSC) program is a competitive state grant program that promotes infill development and the reduction of greenhouse gas emissions through transportation and land use change. AHSC encourages combined investments in affordable housing, transit, and active transportation infrastructure.[58] The City of San José and local affordable housing developers have received AHSC funding for several affordable housing projects, including 777 Park Avenue, North San José Pedro Studios, and Renascent Place.[59] These awards included funding for active transportation improvements such as bicycle paths, recreational trails, pedestrian amenities, and sidewalks.[60]

A recent AHSC project in Oakland demonstrates how cities, transit agencies, and nonprofit organizations can collaborate to bundle projects together and leverage state funding. In AHSC's 2016-2017 funding cycle, the City of Oakland, AC Transit, and Resources for Community Development (a nonprofit affordable housing developer) submitted a joint application and were granted a $14 million award. Funds will go towards the construction of Coliseum Place, a 59-unit affordable housing development (see Figure 18), as well as segments of the planned International Boulevard AC Transit Bus Rapid Transit line and the East Bay Greenway projects. The award will also fund a transit pass program and bicycle education classes for Coliseum Place residents.[61]

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[57] Projects included in the countywide long range plan are eventually listed in the Regional Transportation Plan (Plan Bay Area), which also has implications for funding eligibility.

[58] "Affordable Housing and Sustainable Communities Fact Sheet" California Strategic Growth Council, 2018, available at: http://sgc.ca.gov/programs/ahsc/docs/20180731-Update-Fact%20Sheet-AHSC.pdf

[59] Note that the City of Santa Clara has not received any AHSC grants.

[60] Detailed information on all AHSC applications and winning grantees is available for download on the California Strategic Growth Council website: http://sgc.ca.gov/programs/ahsc/resources/previous-awards.html

[61] "AHSC 2015-2016 Transit-Oriented Development Project Profile", California Strategic Growth Council, 2017.

FIGURE 18. RENDERING OF COLISEUM PLACE, AN AHSC-AWARDED AFFORDABLE HOUSING PROJECT IN OAKLAND CA

Source: Resources for Community Development, available at: https://rcdhousing.org/housing-development/coming-up/coliseum-place/

Strategy #4: Engage with Local Partners to Expand Community and Economic Development Activities

Lead Agencies: Local community groups, institutions, and/or business and property owners

Partners: Cities of San José and Santa Clara

Creating successful TOCs requires ongoing investment in programs and services that create opportunities and benefits for local residents and businesses. For example, community and economic development activities in Downtown San José can capitalize on the introduction of BART service to support Downtown's emergence as the central business district of Silicon Valley. Stakeholders in the 28th Street station area place a high priority on protecting and promoting the district's Latino and Portuguese cultural identities, while limiting the displacement of small businesses and households. In the Santa Clara station area, there is a desire to support Downtown Santa Clara as a retail, dining, and entertainment destination, while also creating a new node of activity near the station.

Community-based organizations – such as Business Improvement Districts (BIDs), Property-Based Improvement Districts (PBIDs), Community Development Corporations (CDCs), and Downtown Development Corporations – can provide services and programming that go above and beyond standard municipal services that are tailored to meet local needs. Community-based organizations can access funding sources such as foundation funds, grants or loans from banks meeting their

Community Reinvestment Act requirements,[62] and/or special assessments on businesses or properties. Figure 19 provides additional information on the different types of community-based entities that could play a role in the station areas, including potential functions and funding sources. Note that one organization can sometimes play multiple roles; for example, the Unity Council in Fruitvale is a CDC that also administers a BID (see discussion below).

The Cities should work with existing organizations and other community stakeholders in each station area to identify opportunities to enhance the business environment, support and retain small businesses, and reduce the risk of household displacement. Potential partners include the Downtown San José Association, the Downtown Santa Clara Merchants' Association, the Alum Rock Merchants' Association, Santa Clara University, San José State University, and other local non-profits, property owners, and institutions. VTA can also play a supporting role as a local property owner; for example, VTA already participates in the Downtown San José BID.

Some of the specific opportunities discussed during the TOC Strategy Study process are described below:

- **Santa Clara station area:** Explore the potential for a BID or PBID that would include new development in the immediate vicinity of the Santa Clara station area (i.e., on the northeast side of the rail tracks). A BID or PBID could provide services such as street cleaning, beautification, maintenance and programming of plazas and other public space, and public safety ambassadors.

- **Downtown San José station area:** Expand services and coordination among agencies to address homelessness, pedestrian and bicycle safety, and quality of life issues (e.g., late night noise, parking management), as recommended in the Downtown San José Retail Strategy. Create and promote a strong brand identity for Downtown to help attract new businesses, residents, and visitors.

- **28th Street station area:** Continue the process of studying a BID to create a dedicated source of funding for local economic development activities. In addition, consider exploring a CDC that could access a broader range of funds and provide tenant advocacy, small business support and assistance, and/or other local services (e.g., health-related). A CDC could also potentially develop affordable housing or other community-based projects such as a small market or food court to provide affordable space for emerging Latino and/or Portuguese businesses.

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[62] The Community Reinvestment Act (a federal law enacted in 1977) is intended to encourage banks to meet the credit needs of low- and moderate-income communities. The Community Reinvestment Act requires federal regulators to measure how well banks are fulfilling this requirement. This measure is then considered as part of federal evaluation and approval of applications for bank mergers, branch openings, acquisitions, etc. As an example, some banks seek to fulfill their CRA obligations by providing financing to affordable housing or other community based organizations. See: "Community Reinvestment Act Fact Sheet", Office of the Comptroller of the Currency, 2014, available at: https://www.occ.gov/topics/community-affairs/publications/fact-sheets/pub-fact-sheet-cra-reinvestment-act-mar-2014.pdf

FIGURE 19. TYPES OF ORGANIZATIONS FOCUSED ON LOCAL COMMUNITY AND ECONOMIC DEVELOPMENT

TYPE OF ENTITY	DEFINITION	EXAMPLES OF TYPICAL FUNCTIONS	TYPICAL FUNDING SOURCES	EXAMPLES
Business Improvement District/Property-Based Improvement District (BID/PBID)	A type of special assessment district that assesses and provides benefits to either business owners (in a BID) or property owners (in a PBID). Managed by a non-profit organization that is formed by the business and property owners who pay the assessment.	• Operations, maintenance, programming of plazas, other public space • Street and public realm maintenance and beautification • Public safety • Marketing, promotions, and advocacy • Small business support, assistance	• Special assessment district • Grants and donations	• Downtown San José Association BID/PBID • Downtown Santa Clara BID
Community Development Corporation (CDC)	Non-profit organization that provides programs and services to support community development. Typically focused on serving lower-income residents in a specific neighborhood.	• Real estate development (e.g., affordable housing, commercial development) • Tenant advocacy, community organizing • Small business support, assistance • Local services (e.g., youth, seniors, health-related)	• Community development intermediaries (LISC and Enterprise) • Community Development Financial Institutions • Foundations • Community Reinvestment Act investments • Development fees and tax credits for development projects	• Unity Council (Fruitvale District, Oakland)
Downtown Development Corporation	Non-profit community Development corporation focused on downtown revitalization.	• Constructing and managing public spaces, access improvements • Advocacy, marketing, organizing local business interests • Land assembly/land banking; residential and commercial development (more typical in downtowns with weak real estate markets)	• Private investment • City funding • Foundations • Grants, • Development fees	• Cincinnati Center City Development Corporation • Central Philadelphia Downtown Corporation

Source: Strategic Economics, 2019.

CASE STUDY: THE UNITY COUNCIL AND THE FRUITVALE TRANSIT VILLAGE

The Fruitvale Transit Village in Oakland, California, is a nationally recognized example of successful TOD. A major reason for the project's success is the active role played by a local community-based organization, The Unity Council, throughout the planning and development process.

The Unity Council has been active in the Fruitvale neighborhood since the 1960s, and first established its Community Development Corporation arm in the 1990s.[63] This allowed The Unity Council to take the lead on the development of the Fruitvale Transit Village, a multi-phase mixed use TOD project directly adjacent to the Fruitvale BART station (see Figure 20).[64] The Fruitvale Transit Village has been community-led and has incorporated many elements that respond to community needs, such as affordable housing, a health clinic, a community resource center, and a public market. Specific partnerships and financing tools were also pivotal in making this project possible: BART-owned land was dedicated to the project for joint development; redevelopment tax increment financing was leveraged; and local affordable housing developers are currently assisting The Unity Council on Phase II of the project, which includes a much larger number of affordable units.[65]

The Unity Council also plays an important role in ongoing community and economic development initiatives. The Fruitvale Business Improvement District (BID) was created by The Unity Council in the late 1990s, and today the BID represents hundreds of businesses in the neighborhood. The BID's main activities include façade improvement, street beautification, small business assistance, and other promotional events. The BID also works with a Safety & Neighborhoods Ambassador team, which provides street cleanup services and acts as "eyes and ears on the street." Part of the team's mission is to hire persons with significant barriers to employment, such as criminal backgrounds or language barriers.

Given Fruitvale's demographics as a predominantly Latino, lower income neighborhood, The Unity Council's involvement has been vital in shaping TOD to enhance, and respond to the needs of, existing communities, rather than accelerate household and small business displacement.[66]

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[63] Unity Council, https://unitycouncil.org/

[64] Fruitvale Transit Village Phase I, completed in 2004, includes 47 housing units (of which 10 affordable), 135,000 office square feet (of which 115,000 square feet is dedicated to non-profits), 40,000 retail square feet, and a public plaza. Phase II-A is under construction, and will result in 94 affordable units. It is a partnership with the East Bay Asian Local Development Corporation. Phase II-B is currently in planning, and will result in 181 affordable units and 7,500 square feet of non-profit office space. It is a partnership with BRIDGE Housing.

[65] "BART Phase II Transit Oriented Communities Strategy Study: Case Study Review", GB Placemaking, April 2019, available at: http://vtaorgcontent.s3-us-west-1.amazonaws.com/Site_Content/TOD-TOC-Case-Studies.pdf

[66] Research conducted by the Latino Politics and Policy Initiative (LIIP) group at the University of California, Los Angeles, found that the equitable TOD model used in the Fruitvale Transit Village has been associated with increases in the socio-economic status of existing residents and with the preservation of the area's racial/ethnic diversity. As highlighted in several articles published in response to this research, it is difficult to conclude with certainty that displacement was prevented. Nonetheless, several indicators point to successes. See: "Should I Stay or Should I Go? How Effective Transit Oriented Development Can Lead to Positive Economic Growth Without Displacing Latinos", Matt Barreto, Sonja Diaz, and Tyler Reny, Latino Politics and Policy Initiative (LIIP) at the University of California, Los Angeles, 2018, available at: https://ucla.app.box.com/s/0ytk7qpg7fjloc0gglwb8iuuxt94uk12; "Is Fruitvale gentrifying? Did it prevent displacement?", Joe Cortright, City Commentary, August 2018, available at: http://cityobservatory.org/is-fruitvale-gentrifying-did-it-prevent-displacement/

FIGURE 20. FRUITVALE TRANSIT VILLAGE PHASE I (LEFT), AND FRUITVALE TRANSIT VILLAGE PHASE II-A, CASA ARABELLA AFFORDABLE HOUSING PROJECT (RIGHT)

Source: Unity Council, available at: https://unitycouncil.org/property/fruitvale-village/ (left), and https://unitycouncil.org/property/casa-arabella/ (right)

Strategy #5: Create Dedicated Staff Positions within the Cities of San José and Santa Clara to Lead TOC Implementation

Lead Agencies: Cities of San José and Santa Clara

Implementation of successful TOCs will required will require staff time and commitment from the Cities of San José and Santa Clara, involving multiple departments within each of the two cities (e.g., Planning, Economic Development, Housing, Public Works, Building/Code Enforcement, Transportation, etc.). Each City should establish a senior level staff position (e.g., a "TOC manager") dedicated to TOC implementation. The specific responsibilities of the TOC manager will change over time, but may include:

- Leading implementation of the TOC funding strategies.
- Ensuring implementation of the land use, parking, design and other policy changes to support good TOCs.
- Working across departments to prioritize TOC implementation.
- Engaging with partner agencies to support TOC implementation throughout the corridor.

Each City should determine the department or office where the position should be housed in order to maximize the staff person's capacity to lead implementation efforts and coordinate efforts across departments. Over time, additional staff may be required to support implementation.

CASE STUDY: CITY OF DENVER TOD MANAGER

As TOD has become an increasingly important priority for many local governments, cities including Honolulu, Minneapolis, St Paul, Seattle, and Denver have created dedicated staff positions focused on TOD implementation. The Denver example demonstrates the role that TOD managers can play.

In 2014, the City of Denver adopted a citywide TOD Strategic Plan.[67] Multiple departments were involved in the plan, including Community Planning and Development, the Office of Economic Development, Public Works, Parks and Recreation, and Finance. The plan emphasized that implementing TOD would require actions that cut across multiple departments. For this reason, a major recommendation identified in the plan was to:

> *"Appoint a senior level staff person to act as a champion for TOD related policies and projects. The position should have the authority to coordinate and direct city departmental activities related to station/TOD development and investment. As this position becomes more defined, consider the roles of the position to include real estate development assistance to both property owners and potential developers. If needed, expand this position to a small team of TOD professionals with specific expertise in TOD related activities – planning, infrastructure, and finance."*[68]

Subsequent to the strategic plan adoption, the City created a new citywide TOD Manager position in 2014. In 2015, the City hired a TOD Manager who has experience in municipal politics and a familiarity with the local development and advocacy communities. The TOD Manager works across departments to expedite approval of TOD projects and ensure that new development contributes to infrastructure improvements required to support TOCs. The TOD Manager sits on the West Line Corridor Collaborative Board (as mentioned in the West Line Corridor case study, below), and was instrumental in the formation of the cross-jurisdictional West Corridor Transportation Management Association.[69]

The TOD Manager is officially housed in the Community Planning and Development department. However, other cities have found that placing this position in the Economic Development department can be more effective in facilitating cross-departmental efforts.

Strategy #6: Establish a Framework for Ongoing Collaboration among the City of San José, the City of Santa Clara, and VTA

Lead Agencies: Cities of San José and Santa Clara, VTA

As part of the TOC Strategy Study, VTA organized regular meetings with staff at both the Cities of San José and Santa Clara, as well as quarterly meetings with a broader technical advisory group comprised of additional staff from the City, VTA, and BART. The City of San José, the City of Santa Clara, and VTA should develop a framework for continuing this coordination on an ongoing basis. Other partners (such

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[67] "City of Denver Transit-Oriented Development Strategic Plan", City and County of Denver, 2014, available at: https://www.denvergov.org/content/dam/denvergov/Portals/193/documents/TOD_Plan/TOD_Strategic_Plan_FINAL.pdf

[68] Ibid, see page 70.

[69] Most of the information included in this case study was obtained from personal communication with Chris Nevitt, Citywide TOD Manager for the City of Denver, and Mike Hughes, Executive Director of the West Corridor Transportation Management Association, May 2019.

as BART, community organizations) may need to be involved as well, either regularly or on specific issues. For example, the framework could include monthly staff meetings and quarterly meetings with department directors, similar to the structure that the Cities of Denver, Lakewood, and their respective housing authorities created to form the West Line Corridor Collaborative (see case study below).

The topics that need to be covered will likely change over time. Some key topics are expected to include:

- Implementing TOD financing districts.
- Identifying and pursuing grant funding opportunities.
- Implementing shared mobility districts.
- Coordinating land use policy and zoning, especially in the Santa Clara station area.

CASE STUDY: WEST LINE CORRIDOR COLLABORATIVE AND WEST CORRIDOR TRANSPORTATION MANAGEMENT ASSOCIATION

The West Line Corridor Collaborative (WLCC) – a nonprofit organization that brings together the City of Denver, the City of Lakewood, and their respective housing authorities – is an example of a cross-jurisdictional partnership focused on TOD implementation.

In 2004, Denver's Regional Transportation District announced the new West Line, a planned expansion of Denver's light-rail system from Downtown Denver to the City of Lakewood and unincorporated Jefferson County. In preparing for the new transit line, the four public agencies mentioned above came together as the "West Line Corridor Working Group" to lead an extensive TOD planning process. This resulted in a corridor-level TOD implementation strategy, published in 2011. One of the main recommendations of this report was to create a permanent, multi-jurisdictional partnership to ensure successful implementation of TOD. Thus, the West Line Corridor Working Group became the WLCC.[70]

Light-rail service on the West Line began operating in 2013, and the WLCC remains active today. The group meets for quarterly board meetings and monthly staff meetings to coordinate TOD implementation and review topics such as rezoning, specific development projects, and housing authority affordable housing projects. The WLCC board is comprised of Denver's TOD Manager, Lakewood's City Manager, and the Executive Directors of each City's housing authority.

In late 2018, the WLCC established a cross-jurisdictional Transportation Management Association (TMA) (see Figure 21), which is staffed by an Executive Director and governed by the WLCC board. The TMA works with employers across the corridor to encourage transit ridership and other alternative modes of transportation. This, in turn, supports higher-density TOD with lower parking requirements. The TMA receives funding from the federal Congestion Mitigation and Air Quality Improvement (CMAQ) program, as well as City and member employer contributions.[71]

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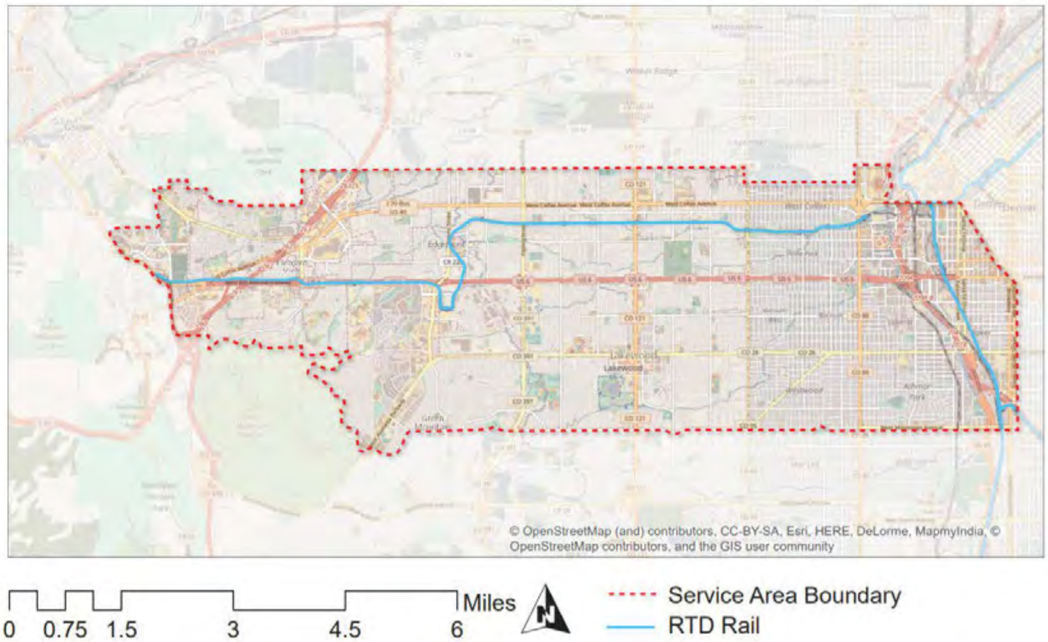
[70] "Connecting the West Corridor Communities: An Implementation Strategy for TOD along the Denver Region's West Corridor", Center for Transit Oriented Development for the City of Denver, the City of Lakewood, the Denver Housing Authority, and Metro West Housing Solutions, 2011, available at: http://www.reconnectingamerica.org/resource-center/browse-research/2011/connecting-the-west-corridor-communities-an-implementation-strategy-for-tod-along-the-denver-region-s-west-corridor/

[71] Information included in this case study was obtained from personal communication with Chris Nevitt, Citywide TOD Manager for the City of Denver, and Mike Hughes, Executive Director of the West Corridor Transportation Management Association, May 2019.

FIGURE 21. BOUNDARIES OF THE WEST CORRIDOR TRANSPORTATION MANAGEMENT ASSOCIATION, IN THE DENVER METROPOLITAN REGION, CO



Source: Transportation Solutions Foundation, West Corridor TMA Feasibility Study, available at: http://www.transolutions.org/wp-content/uploads/2017/04/WLCC_Service_Area_Draft_04112017.pdf

Strategy #7: Partner to Increase Production of Affordable Housing, Preserve Existing Affordable Housing, and Prevent Displacement of Households

Lead Agencies: Cities of San José and Santa Clara, VTA

Partners: Developers (non-profit and private), potential new entities (e.g., CDC)

The TOC Strategy Study generated detailed recommendations for producing new affordable housing, preserving existing affordable housing, and preventing displacement of low and moderate income residents in the three station areas.[72] Figure 22 summarizes the recommended strategies, including the respective role of the Cities and VTA in implementing each strategy. In general, the Cities have primary responsibility for implementing policies and services to protect existing tenants and homeowners from the risk of displacement and preserve existing affordable housing. The cities also have opportunities to increase local funding for affordable housing, such as citywide affordable

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[72] See the TOC Strategy Study appendix.

(footnote continued)

housing bond measures, a commercial linkage fee in the City of San José,[73] and tax increment financing. VTA's primary role is in facilitating affordable housing development on agency-owned land, to meet VTA's on-site affordability requirements for joint development sites.[74]

However, there are also a number of implementation activities that will require partnerships between the Cities, VTA, affordable housing developers, and existing and potential new community-based organizations (such as a community development corporation). Implementation actions that will benefit from collaboration include:

- **Partner on grant applications for affordable housing and TOCs.** Some programs, such as the Affordable Housing for Sustainable Communities and Infill Infrastructure Grants programs (discussed above in Strategy #3), require joint applications that include a public agency as well as an affordable housing developer. In other cases, public agencies may be able to submit letters of support to assist affordable housing developers with successfully pursuing grant applications.
- **Advocate for new state funding sources for affordable housing and TOD.** In the current legislative session, several bills have been proposed to create new or expanded state funding sources, such as the state Low-Income Housing Tax Credit program. The Cities, VTA, and other partners should work together to advocate for passage of bills that would increase funding.
- **Support citywide affordable housing bond measures.** These measures would need to be initiated by the Cities of San José and Santa Clara, respectively. VTA could play a supporting role by working with City staff and officials to place a measure on the ballot, and advocating for its passage.
- **Monitor new private funding sources to help fill the funding gap.** For example, there may be some potential to use Opportunity Zones to attract new kinds of investors to affordable and workforce housing development projects. Private companies are also playing an increasing role in funding affordable housing through philanthropic initiatives. For example, the Partnership for the Bay Area's Future, announced in early 2019, is a coalition of funders that includes Facebook, Genentech, the Chan Zuckerberg Foundation, and the San Francisco Foundation.[75] The coalition aims to raise $540 million for affordable housing in the region: $500 million will be for community development projects, and $40 million will be awarded to jurisdictions with affordable housing plans. Details regarding how to access these funds are not yet publicly available. The Cities, VTA, and other partners should work together to advocate that funds be used to support TOD.
- **Explore opportunities for affordable housing development on sites owned by other public agencies (e.g., Santa Clara County, the State of California).** In addition to VTA, the cities, Santa Clara County, the State of California, and other public agencies also own land in the station areas.

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[73] The City of Santa Clara already has a commercial linkage fee is already in place, and the City. of San Jose is currently planning to study the potential for a new fee.

[74] VTA's Joint Development (JD) Policy requires that at least 20 percent of housing units on any given JD site be made affordable to households earning no more than 60 percent of AMI, and half of these units must be targeted to households earning 50 percent of AMI or less. VTA's policy also requires that 35 percent of units in its overall joint development portfolio be made affordable to lower income households.

[75] Partnership for the Bay's Future. https://www.baysfuture.org/

FIGURE 22. STRATEGIES FOR PRODUCING AFFORDABLE HOUSING AND MITIGATING DISPLACEMENT RISK IN THE BART PHASE II TOC STUDY STATION AREAS

STRATEGIES	STATION AREAS			IMPLEMENTATION PARTNERS		
	28th St	Downtown San José	Santa Clara	City	VTA	Other*
PROTECT EXISTING TENANTS AND HOMEOWNERS						
1. Ensure that existing tenants and homeowners can stay in place by expanding existing policies and resources						
1.1. Expand tenant protections in San José's Apartment Rent Ordinance (ARO) and/or San José's Tenant Protection Ordinance (TPO) to single-family homes and duplexes	X			Lead		
1.2. Increase targeted emergency rent assistance for at-risk households	X	X		Lead		
1.3. Increase legal services and outreach for tenants facing evictions	X	X		Lead		Support
1.4. Closely monitor evictions, rent increases, and foreclosures in the station area	X	X		Lead		
1.5. Improve protections for tenants of deed-restricted affordable housing	X	X	X	Lead		
1.6. Increase assistance to low-income homeowners	X	X		Lead		
1.7. Implement tenant protections for conversions of deed-restricted to market-rate housing			X	Lead		
1.8. Expand the City of Santa Clara's existing tenant services and protections			X	Lead		
2. Make it easier for low-income tenants to access affordable housing in the station area						
2.1. Implement a source of income ordinance	X	X	X	Lead		
2.2. Consider establishing a new policy that would give displaced tenants a better chance of obtaining an affordable unit	X	X		Lead		
PRESERVE EXISTING AFFORDABLE HOUSING						
3. Implement more robust policies to preserve existing affordable housing						
3.1. Continue to require replacement or equivalent alternatives when rent-stabilized units are demolished	X	X		Lead		
3.2. Explore additional protections for mobilehome parks	X			Lead		
3.3. Continue to track and preserve expiring deed-restricted units		X	X	Lead		
3.4. Partner with funders and affordable housing developers to create a new acquisition and rehabilitation program for naturally occurring affordable housing (NOAH)	X	X	X	Lead		Lead or Support

STRATEGIES	STATION AREAS			IMPLEMENTATION PARTNERS		
	28th St	Downtown San José	Santa Clara	City	VTA	Other*
PRODUCE NEW AFFORDABLE HOUSING						
4. Leverage public land for affordable housing production						
4.1. Follow through on VTA's on-site affordability requirements for VTA Joint Development sites.	X	X	X		Lead	
4.2. Identify opportunities to offer VTA-owned land at a discounted rate for affordable housing development.	X	X	X		Lead	
4.3. Explore further opportunities for affordable housing development on publicly-owned sites.**	X	X	X	Lead		Lead
5. Increase local funding for deed-restricted affordable housing production						
5.1. Support a citywide affordable housing bond measure.	X	X		Lead	Support	Support
5.2. Implement a commercial linkage fee.	X	X		Lead		
5.3. Explore dedicating a portion of potential future tax increment financing (TIF) district revenues to affordable housing.	X	X	X	Lead	Support	Support
6. Pursue new partnerships and funding for affordable housing production						
6.1. Pursue new state funding sources for affordable housing and TOD.	X	X	X	Lead	Support	Lead
6.2. Monitor new private funding sources to help fill the funding gap.	X	X	X	Lead	Support	Lead
6.3. Explore a partnership with Santa Clara University to pursue workforce housing development.			X	Support		Lead
7. Eliminate regulatory barriers to, and create incentives for, affordable housing production in the study area						
7.1. Consider eliminating or significantly reducing the Urban Village commercial requirement for 100 percent deed-restricted affordable housing development.	X			Lead		
7.2. Kickstart ADU development by streamlining the permitting process and providing additional financing options.	X		X	Lead		Support
7.3. Explore policies to keep ADUs accessible to low- and moderate-income households.	X		X	Lead		

*Other partners include Santa Clara County, Santa Clara County Housing Authority, nonprofit affordable housing developers, local advocacy groups (e.g. SV @ Home, Silicon Valley Law Foundation), and/or other community-based groups.
**The Cities of San José and Santa Clara, Santa Clara County, the State of California and other agencies own land in the station areas. These public agencies should determine whether any of their parcels are subject to California's Surplus Land Act. MTC's Viable Public Land for Workforce Housing online database is one possible resource to help identify parcels.
Source: Strategic Economics, 2019.

Strategy #8: Establish Shared Mobility Districts to Manage Parking and Provide Transportation Demand Management Services

Lead: Cities of San José and Santa Clara

Support: VTA, BART, other property owners

A shared mobility district is an entity that helps to manage parking resources and facilitate non-auto forms of transportation to reduce parking demand within a district. Shared mobility districts would be charged with identifying and facilitating opportunities to more efficiently use existing parking spaces, negotiating with private owners of existing parking facilities, building and managing new parking facilities as needed, and implementing wayfinding, signage, and other improvements to encourage visitors to park once and walk to destinations within the station area. Shared mobility districts would also provide transportation demand management (TDM) services to all members of the district within the station area, such as subsidized transit passes, incentives for commuters to take alternative modes of transit, and car and bike sharing programs. The district would also be in a position to work with VTA on tailored transit services, including off-peak service schedules that meet the needs of local businesses/employees.

Options to manage each station's Enhanced Access District could include the following:

- **Downtown San José and Alum Rock/28th Street station areas**: San Jose's Department of Transportation (DOT). DOT (under "ParkSJ" branding) currently manages all publicly owned off-street parking in Downtown, as well as one facility in Alum Rock.
- **Santa Clara station area**: The Santa Clara Department of Traffic, or a Joint Powers Authority including representation from Santa Clara, San Jose, VTA, and BART.

Note that existing agencies would need to expand their responsibilities (for example, to include TDM programming) in order to play the role of an enhanced access district. Shared parking may be self-sustaining, assuming that developer in-lieu fees and parking rates are set at levels that fully cover the cost of providing and managing the shared parking facilities. Some of the funds raised from parking fees may even be available to help for other transportation improvements.

In order to be successful, shared mobility districts should be combined with reduced parking minimums and new parking maximums. By setting a maximum parking requirement instead of a minimum requirement, cities can provide context-sensitive and evidence-based guidance to developers, with the goal of not overbuilding parking supply for new TOD while also meeting expected levels of parking demand at the district level. The Cities could also support the establishment of shared mobility districts by encouraging or requiring multiple property owners to enter into shared parking agreements for parking to be provided for the whole district.

The Station Area Strategy Reports provide more information on recommended parking maximums, shared parking, and TDM strategies.

APPENDIX A: KEY ASSUMPTIONS AND METHODOLOGY

This appendix provides additional information on some of the key assumptions and methodology used to estimate some of the figures cited in this report, including the TOC Development Scenario and associated service population (residents and workers), potential TIF revenues, and potential CFD revenues.

TOC Development Scenario and Service Population

Figure A-1 shows the TOC development scenario, which serves as the basis for the EIFD and CFD revenue assumptions, and the associated service population (residents and workers). Figure A-2 shows the assumptions used to calculate the service population. The development scenario is based on projected future market demand[76] and an analysis of the physical capacity of the station areas for development. The scenario assumes that the station areas attract more new development over time due to the introduction of BART service, investments in local access, streetscape, and other improvements, and the implementation of TOD-supportive policies (e.g., increased housing allocations, reduced parking requirements). Note that the development scenario includes development proposals that were in the pipeline as of early 2019 (i.e. under construction, approved, or proposed).

FIGURE A-1. TOC DEVELOPMENT SCENARIO AND ASSOCIATED SERVICE POPULATION: NET NEW DEVELOPMENT, RESIDENTS, AND WORKERS, 2019-2040

	Santa Clara Station Area	Downtown San José Station Area	28th St Station Area	Total
Market Projections (Square Feet)				
Office	3,500,000	6,500,000	500,000	10,500,000
Residential	8,626,000	15,992,200	7,827,000	32,445,200
Hotel	510,000	1,158,000	114,000	1,782,000
Retail	102,852	212,852	58,328	374,031
Total	*12,738,852*	*23,863,052*	*8,499,328*	*45,101,231*
Residential Units	8,626	15,992	7,827	32,445
Hotel Rooms	850	1,930	190	2,970
Service Population				
Residents	21,565	39,981	19,568	81,113
Workers	14,432	26,940	2,167	43,540

Sources: Strategic Economics and Perkins + Will, 2019.

[76] See VTA's BART Phase II TOD Corridor Strategies and Access Planning Study: Opportunities and Constraints Report, January 21, 2019. http://vtaorgcontent.s3-us-west-1.amazonaws.com/Site_Content/VTA-B2-OpportunitiesConstraintsReport.pdf

FIGURE A-2. SERVICE POPULATION AND OCCUPANCY ASSUMPTIONS

Residential Unit Size (Gross Sq. Ft.)	1,000
Hotel Room (Gross Sq. Ft.)	600
Residents per unit	2.5
Office (Gross Sq. Ft. Per Employee)	250
Hotel (Gross Sq. Ft. Per Employee)	2,250
Retail (Gross Sq. Ft. Per Employee)	500

Sources: Strategic Economics, 2019.

Tax Increment Financing Revenues

This analysis assumes that the Cities establish Enhanced Infrastructure Financing Districts (EIFDs), according to the parameters discussed below. Under state law, cities, counties, and other taxing entities can choose to allocate a share of both incremental property tax revenues (i.e., future increases in property tax, over and above the property tax revenues generated in the designated base year), and property tax in-lieu of vehicle license fee (VLF) revenues.

Note that this simplified analysis assumes that only tax increment generated from *new development* is allocated to the EIFD. The analysis is conservative in that does not include the potential tax increment associated with increases in the assessed value of existing uses in the station areas over time. The analysis also does not account for the fact that much of the new development in the station areas will require redevelopment of existing properties, which are currently generating property tax revenues to the City.

DISTRICT FORMATION, BOND ISSUANCE, AND TERMINATION

The analysis assumes that the EIFD is established and the base is set in 2025, allowing the EIFD to capture incremental property tax revenue generated by future development in the district after that year. The first bond issuance is assumed to occur five years later, in 2031, with a subsequent bond a subsequent bond issuance in 2036.

The EIFD sunsets 45 years after the first bond issuance (in 2075), the maximum term allowed by state law.

ESTIMATED ASSESSED VALUATION

Under California's Proposition 13, properties are reassessed to market value when major construction occurs or upon sale; otherwise, assessed values may only increase at the rate of inflation, not to exceed two percent per year. Therefore, to calculate the change in assessed property values over time, the following methodology was used:

- **New development is assumed to be assessed at market value in the year in which it is completed.** Market values for new market-rate residential, office, retail, and hotel space (shown in Figure A-3) were developed based on rents and sales prices from recently completed projects in and around the station areas, as documented in Strategic Economics' recent market analysis conducted for VTA's BART Phase II TOD Strategy.[77] Values are assumed to increase by an average of 3 percent per year. Note that future residential development in the station areas is assumed to include 80 percent market-rate units and 20 percent below-market-rate units.[78] The residential assessed values shown in Figure A-3 are averages reflecting these affordability levels.

- **Beginning in the year after each phase of development is completed, the assessed value is assumed to increase at a rate of 2.5 percent per year.** This represent the 2 percent inflationary increase permitted under Proposition 13, plus a factor to account for increases in assessed value resulting from property sales or major renovations.

FIGURE A-3. AVERAGE ASSESSED VALUES OF NEW DEVELOPMENT BY STATION AREA AND LAND USE, IN 2018 DOLLARS

	Santa Clara Station Area	Downtown San José Station Area	28th Street Station Area
Residential (per gross sq. ft.) (a)	$617	$607	$503
Office (per gross sq. ft.)	$649	$617	$519
Retail (per gross sq. ft.)	$570	$570	$448
Hotel (per gross sq. ft.)	$583	$583	$500

All values are in 2018 dollars. Values are assumed to increase by 3 percent a year.
(a) Assumes 80 percent market-rate units and 20 percent below-market-rate units. Of the below-market-rate units, half are assumed to be provided in 100% affordable, non-profit-owned buildings that are exempt from property taxes. The other half are assumed to be provided in mixed-income buildings (i.e. inclusionary housing units), with a mix of income levels reflecting the cities' respective inclusionary housing ordinances.
Source: Market research conducted by Strategic Economics, 2018.

EIFD REVENUES

EIFD revenues are estimated by calculating the Cities of San José and Santa Clara's incremental tax revenues associated with new development in the station areas, assuming a share of City tax revenues are allocated to the district. Key assumptions are described below and summarized in Figure A-4.

Note that much of the Downtown San José station area is within the former San José Redevelopment Agency Merged Project Area. Within this area, property tax increment revenues are deposited into a Redevelopment Property Tax Trust Fund and used to pay the existing obligations of the Redevelopment Successor Agency. Any remaining funds in the trust fund are distributed to the local agencies in the project area and are known as "residual" payments. In FY 2017-2018, the Successor Agency reached a sufficiency of funds and began distributing residual revenues to the taxing entities. Unless assessed property values in the Merged Project Area decline significantly below the current value, it is expected that existing tax increment revenues will continue to be sufficient to pay the Successor Agency's obligations. Therefore, it assumed that the new property tax revenues generated by the TOD

[77] See VTA's BART Phase II TOD Corridor Strategies and Access Planning Study: Opportunities and Constraints Report, January 21, 2019. http://vtaorgcontent.s3-us-west-1.amazonaws.com/Site_Content/VTA-B2-OpportunitiesConstraintsReport.pdf

[78] Of the below-market-rate units, half are assumed to be provided in 100% affordable, non-profit owned buildings that are exempt from property taxes. The other half are assumed to be provided in mixed-income buildings (i.e. inclusionary housing units), with a mix of income levels reflecting the Cities' respective inclusionary housing ordinances. For San José, we assume a mix of units affordable to households earning 120% of area median income (AMI), 80 percent of AMI, and 60 percent of AMI. For Santa Clara, we assume that inclusionary units are affordable to households earning 100% of AMI. The assessed value of inclusionary units are estimated based on Santa Clara County's maximum allowable rents at the income levels specified.

(footnote continued)

development scenarios will be allocated to the taxing entities, including to the City's General Fund, and could be available for allocation to an EIFD consistent with state law.[79]

- **Incremental property tax revenues.** The Cities of San José and Santa Clara currently receive between 10 and 13 percent of the one percent general property tax rate in the station areas, or $0.10 to $0.13 of new tax revenues (tax increment) for each $1 increase in assessed value.
- **Property tax in-lieu of vehicle license fee (VLF) revenues.** Property tax in-lieu of VLF revenues are allocated to Cities and Counties proportionally to each jurisdiction's total assessed value. The City of San José receives $0.481 of property tax in-lieu of VLF for each $1,000 increase in assessed value.[80] The City of Santa Clara receives $0.337 of property tax in-lieu of VLF for each $1,000 increase in assessed value.[81]
- **Share of tax revenues allocated to the district:** This analysis assumes that the City of San Jose allocates 25% of future tax increment generated within the station area (including property tax and property tax in-lieu of VLF) to an EIFD. The analysis does not assume that tax increment from other taxing entities is redirected to the EIFD.
- **Affordable housing set aside:** The EIFD is assumed to set aside 20 percent of revenues for low and moderate income housing.

FIGURE A-4. SUMMARY OF EIFD REVENUE ASSUMPTIONS

City/Station Area	Property Tax Rate Dedicated to the City General Fund (a)	Property Tax In-Lieu of VLF Rate per $1,000 Assessed Value (b)	Share of Tax Increment Allocated to the EIFD (c)	Low and Moderate Income Housing Set Aside
City of Santa Clara				
Santa Clara Station Area	0.1063%	$0.481	25%	20%
City of San José				
Santa Clara Station Area Downtown	0.1258%	$0.337	25%	20%
San José Station Area 28th Street	0.1300%	$0.337	25%	20%
Station Area	0.1239%	$0.337	25%	20%

(a) Average allocation in the Tax Rate Areas (TRAs) located in the potential district boundaries, weighted by total assessed value in each TRA.
(b) City of Sant Clara's rate calculated from the City of Santa Clara's Consolidated Annual Financial Report for FY 2018. San José rate provided by ADE based on Santa Clara County Assessor data for FY 2018-2019.
(c) Includes property tax and property tax in-lieu of VLF increment.
Source: Santa Clara County Assessor's Office, 2017; Strategic Economics, 2018.

[79] SB 628 allows Cities to allocate property tax residual payments from Redevelopment Property Tax Trust Funds to an EIFD.

[80] Provided by ADE based on Santa Clara County Assessor data for FY 2018-2019.

[81] Calculated from the City of Santa Clara's Consolidated Annual Financial Report for FY 2018.

Community Facilities District Revenues

This section describes the key assumptions and methodology used to calculate CFD revenues. Note that the analysis assumes that only new development is subject to the CFD special tax.

DISTRICT FORMATION, BOND ISSUANCE, AND TERMINATION

This analysis assumes that CFDs are established in 2020 and begin collecting revenues in 2021. The first bond is assumed to be issued five years later, in 2026, with subsequent bond issuances in 2031 and 2036.

For consistency with the EIFD, the CFD is assumed to sunset in 2075. In actuality, CFDs may continue indefinitely or until any date set when the district is established.

CFD REVENUES

New development in the station areas are assumed to pay a special tax based on building area (per square foot), charged annually beginning when development is completed. Key assumptions are described below.

- **Base rate:** Figure A-5 summarizes the CFD tax rates used in this analysis. The rates shown are the base rates for the year in which the CFD is first applied (2021). The special tax rates were set to ensure a reasonable contribution from properties, based on precedents from other CFDs, as well as research about the benefits of proximity to new transit investments for different land use types, which tend to be greater for office than for residential. For residential and office, the rates shown amount to between 0.03 and 0.08 percent of assessed value, depending on the station area. The hotel and retail rates amount to approximately 0.02 percent of assessed value.
- **Annual rate escalation:** Rates are assumed to increase by 2 percent per year, starting in 2022. This is a standard rate used for many CFDs.
- **Transit operations & maintenance (O&M) set aside:** 20 percent of gross revenues are set aside to contribute to O&M of the VTA's BART Phase II extension.

FIGURE A-5: CFD SPECIAL TAX RATES

Base Rates, Per Square Foot of New Development (2021)	
Office	$0.50
Residential	$0.25
Hotel	$0.13
Retail	$0.13
Annual Tax Rate Escalation	0.02

Source: Strategic Economics, 2019.

Bonding Capacity and Excess Pay-As-You-Go Revenues

Figure A-6 summarizes key assumptions used to estimate bonding capacity. Bonds are assumed to be issued every five years after the districts begin collecting revenues.[82] Debt service coverage ratio, interest rates, and other assumptions are based on a review of recent special revenue bond issuances by local governments in California.

Excess pay-as-you-go revenues are calculated as annual revenues net of debt service, administrative expenses, set asides for affordable housing or transit O&M (for the EIFD and CFD, respectively), and contributions to a reserve fund.

FIGURE A-6: FINANCING ASSUMPTIONS

Bond Issuances	
CFD	2026, 2031, 2036
EIFD	2031, 2036
Bonding Capacity	
Debt Service Coverage Ratio	130%
Annual Interest Rate	5%
Cost of Issuance	5%
Bond Term (Years)	30
Administrative Expenses	2.5%
Total Debt Reserve Fund (% of annual payment)	100%

Source: Strategic Economics, 2019.

[82] As described above, EIFDs are assumed to be established in 2025 and begin collecting revenues in 2021; CFDs are assumed to be established in 2020 and begin collecting revenues in 2021.

APPENDIX B: COMPETITIVE GRANTS

Figure B-1 provides a matrix of county, regional, state, and federal grant programs that could be leveraged to help pay for the access, streetscape, parks, open space, trails, and stormwater improvements necessary to realize the VTA BART Phase II TOC Strategy Study vision. Only competitive grants are included in the matrix.

The matrix includes a brief description of each grant source and shows which types of projects may be eligible for funding. Note that grants may be applicable to one or more types of improvements.

The matrix is intended to include grant programs that are currently active, have recently been active, or have announced future funding activity; however, the list may not be exhaustive. Additional project-level analysis of specific projects will be required to determine grant eligibility.

FIGURE B-1. COMPETITIVE GRANTS FOR CAPITAL INFRASTRUCTURE IMPROVEMENTS

Program	Administering Agency	Description	Eligible Capital Projects			
			Bicycle and Pedestrian Access	Streetscape	Parks, Trails, and Open Space	Storm Drain and Flood Control
County/Regional						
Santa Clara County Vehicle Emissions Reductions Based at Schools (VERBS)	VTA	VERBS is Santa Clara County's locally programmed portion of the Metropolitan Transportation Commission's (MTC) Safe Routes to School program, which focuses on reducing greenhouse gas emissions and increasing safety by encouraging walking, biking, transit, and carpooling access to schools (K-12). Eligible capital projects include the construction of new bicycle and pedestrian facilities serving specific schools.	X			
Santa Clara County Measure B: Bicycle and Pedestrian Program	VTA	Measure B was passed by Santa Clara County voters in 2016. Measure B authorized a 30-year, half-cent countywide sales tax to invest in transit, highway, and active transportation projects. Measure B includes nine different program areas, one of which is the Bicycle and Pedestrian Program (BPP). The BPP provides funding for bicycle and pedestrian capital projects and planning studies. Priority is given to projects that connect schools, transit and employment centers, and that fill gaps in existing bike/ped networks.	X			
Lifeline Transportation Program (LTP)	VTA/MTC	MTC created the LTP program in 2005 to fund projects that improve transportation access for low-income communities. LTP in Santa Clara County is administered by VTA, and VTA awards grants on a competitive basis. Projects must be community-based, and developed through a collaborative and inclusive planning process. Eligible capital projects include, for example, bicycle and pedestrian improvements and bus stop enhancements.	X			

Program	Administering Agency	Description	Eligible Capital Projects			
			Bicycle and Pedestrian Access	Streetscape	Parks, Trails, and Open Space	Storm Drain and Flood Control
One Bay Area Grant 2 (OBAG 2) County Program: Transportation for Livable Communities (TLC)	VTA/MTC	OBAG 2 is MTC's comprehensive policy and funding framework for distributing federal funding. OBAG 2 includes a Regional Program and a County Program. The County Program, administered by VTA, includes various competitive sub-programs. One of these is the Transportation for Livable Communities (TLC) program, which supports community-based transportation projects focused on encouraging alternatives to single-occupancy vehicles.	X	X		
OBAG 2 County Program: Bicycle and Pedestrian Improvement Program (BPIP)	VTA/MTC	As mentioned above, the OBAG 2 County Program includes various competitive sub-programs. Another relevant sub-program is the Bicycle and Pedestrian Improvement Program (BPIP), which funds a range of bicycle and pedestrian improvements. Projects may not be solely recreational in nature.	X		X	
Access to Trails & Open Space Grant	Santa Clara Valley Water District	In 2012, Santa Clara County voters approved the Safe & Clean Water ballot measure, which authorized a countywide special parcel tax through 2028. The Access to Trails & Open Space Grant Program was created through this new funding source. This program funds projects in Santa Clara County that create new public access to trails and open space where it did not previously exist. Projects must include a creekside trail or significant link to support the creekside trail network.			X	
Transportation for Clean Air (TFCA) Regional Program: Bicycle Facilities Grant Program	Bay Area Air Quality Management District (BAAQMD)	In 1991, the State Legislature authorized a $4 surcharge on registered vehicles to provide funding for projects that reduce on-road motor vehicle emissions. This created the TFCA program, administered by the BAAQMD. Sixty percent of funds collected go to the TFCA Regional Fund for competitive grants. Eligible projects must demonstrate air quality benefits and reduction of emissions from motor vehicles. One sub-program within the TFCA Regional Fund is the Bicycle Facilities Grant Program, which funds the construction of new bikeways and the installation of new bike parking facilities.	X			

Program	Administering Agency	Description	Eligible Capital Projects			
			Bicycle and Pedestrian Access	Streetscape	Parks, Trails, and Open Space	Storm Drain and Flood Control
State						
Urban Greening Program	California Natural Resources Agency	Proceeds from the State's Cap-and-Trade Program help fund California's Urban Greening Program. The Urban Greening Program provides competitive funding for projects that reduce greenhouse gas emissions and provide other benefits related to reducing air/water pollution and the consumption of natural resources, and/or to increasing green spaces and green infrastructure. Eligible projects include the enhancement or expansion of neighborhood parks, green streets, urban trails, facilities that encourage active transportation, and other urban heat island mitigation measures. The program prioritizes projects that benefit disadvantaged communities, as determined by the CalEnviroScreen index.	X	X	X	X
Green Infrastructure Program	California Natural Resources Agency	Proposition 68, passed by California voters in 2018, authorized a general bond obligation to fund state and local parks, environmental protection/restoration projects, and water/flood infrastructure projects. The Green Infrastructure Program was created out of Prop 68. This program provides funding for a variety of green infrastructure projects such as parks, green streets, recreational trails, creek restoration, and stormwater projects. Projects must benefit disadvantaged communities, and projects that reduce greenhouse gas emissions are prioritized.	X	X	X	X
Trails & Greenways Program	California Natural Resources Agency	The Trails & Greenways grant program is another competitive funding program that came out of Proposition 68. The program targets non-motorized trails that provide new access to parks and other natural environments. The program prioritizes projects that include stormwater capture, carbon sequestration, and greenhouse gas reduction. Note that the most recent guidelines indicated that "urban or commuter trails that do not promote access to natural environments" are not eligible.			X	

Program	Administering Agency	Description	Eligible Capital Projects			
			Bicycle and Pedestrian Access	Streetscape	Parks, Trails, and Open Space	Storm Drain and Flood Control
Urban Stormwater & Waterways Improvement Program	California Natural Resources Agency	The Urban Stormwater & Waterways Improvement grant program is another competitive funding program that came out of Proposition 68. The program targets projects that address flooding in urbanized areas. Eligible use of funds include, for example, projects that capture and reuse stormwater, restore streams/watersheds, or increase in permeable surfaces.				X
Affordable Housing Sustainable Communities (AHSC)	California Strategic Growth Council	Proceeds from California's Cap-and-Trade Program help fund the AHSC program. AHSC is a competitive state grant program that promotes infill development and the reduction of greenhouse gas emissions through transportation and land use change. AHSC encourages combined investments in affordable housing, transit, and active transportation infrastructure, with a majority of funds typically awarded to the affordable housing component of a project.	X	X	X	
Infill Infrastructure Grant (IIG)	California Department of Housing and Community Development	The Infill Infrastructure Grant (IIG) program, which had previously run out of funds, is expected to receive new funding from the passage of SB 3 and Proposition 1 in 2017/2018. Updated guidelines have not been released, but in the past, the IIG program provided funds for the infrastructure improvements necessary to enable residential or mixed-use infill development (e.g. parks or open space, water, sewer or other utility service improvements, streets, roads, transit linkages, transit shelters, sidewalks and streetscape improvements, etc.)	X	X	X	X

Program	Administering Agency	Description	Eligible Capital Projects			
			Bicycle and Pedestrian Access	Streetscape	Parks, Trails, and Open Space	Storm Drain and Flood Control
Transformative Climate Communities (TCC)	California Strategic Growth Council	Proceeds from California's Cap-and-Trade Program help fund the Transformative Climate Communities (TCC) program. The TCC provides competitive grants for coordinated, community-led development and infrastructure projects focused on achieving multiple environmental, health, and economic benefits within a given community. Examples of eligible projects include affordable housing, transit, bicycle/pedestrian improvements, and urban green infrastructure. The TCC program prioritizes disadvantaged communities that have been most impacted by pollution, as measured by the CalEnviroScreen index. The TCC program offers Implementation Grants and Planning Grants. According to the FY 2018-2019 guidelines, places with a majority of Census Tracts in the top 5 percent of the CalEnviroScreen index are most likely eligible for Implementation Grants, and places with a majority of Census Tracts in the top 25 percent are likely eligible for Planning Grants. Because several Census Tracts in the 28th Street station area are in the top 25 percent of the CalEnviroScreen index, projects in this station may be eligible for TCC funding, especially Planning Grants.	X	X	X	X
Land and Water Conservation Fund (LWCF)	California Department of Parks and Recreation	The LWCF is a competitive grant program focused on creating new outdoor recreation opportunities for Californians. The program funds the acquisition or the development of recreational space. Eligible projects include the acquisition of land to create a new park, a buffer for an existing park, or a recreational/active transportation trail corridor, or the development of recreational features (e.g. sports fields, dog parks, gardens, open space, etc.)			X	

Program	Administering Agency	Description	Eligible Capital Projects			
			Bicycle and Pedestrian Access	Streetscape	Parks, Trails, and Open Space	Storm Drain and Flood Control
Senate Bill 1: Local Partnership (LP) Program	California Transportation Commission	SB 1, which was signed into law in 2017, is a $54-billion legislative package to fix and enhance roads, freeways, bridges, and transit across California. Funds are split among numerous programs. SB 1 created the LP program to reward jurisdictions and transportation agencies that have passed sales tax measures, developer fees, or other imposed transportation fees. The LP program includes a formula allocation as well as a competitive component. Eligible projects include a wide variety of transportation improvements – roads, pedestrian/bicycle facilities, transit facilities, and other improvements to mitigate urban runoff from new transportation infrastructure. For the competitive grant program, funds can only be used for capital improvements.	X	X		X
Active Transportation Program (ATP)	California Transportation Commission/ Caltrans	ATP was created in 2013 by consolidating various federal and state funding sources into a single program to encourage the use of active transportation across California (note that SB 1 is one of several sources contributing to ATP). ATP provides statewide competitive grants for pedestrian and bicycle capital projects. Certain trail projects are also eligible if they meet the requirements of the Recreational Trails Program (RTP), a sub-program within ATP. Beyond the statewide competitive grants, ATP funds are also distributed to MPOs. A minimum of 25% of ATP funds must be allocated to disadvantaged communities.	X	X	X	
Caltrans Highway Safety Improvement Program (HSIP)	Caltrans	HSIP is funded by the federal surface transportation act and administered by Caltrans. HSIP seeks to achieve significant reductions in traffic fatalities and injuries on public roads. Funds are eligible for work on any public road or publicly owned bicycle or pedestrian pathway or trail, so long as the investment is focused on improving user safety for and addresses a specific safety problem. Non-safety related capital improvements (e.g. landscaping, street beautification) cannot exceed 10 percent of project costs. Caltrans requires that projects be consistent with California's Strategic Highway Safety Plan.	X	X		

Program	Administering Agency	Description	Eligible Capital Projects			
			Bicycle and Pedestrian Access	Streetscape	Parks, Trails, and Open Space	Storm Drain and Flood Control
Federal						
Better Utilizing Investments to Leverage Development (BUILD)	U.S. Department of Transportation	Previously known as Transportation Investment Generating Economic Recovery (TIGER) Grants, BUILD Grants are a highly competitive, discretionary federal grant program for surface transportation infrastructure projects that have a significant local or regional impact. Road, rail, transit, port, and intermodal projects are eligible. Based on the latest Notice of Funding Opportunity (Fiscal Year 2019), up to 50% of BUILD funding will be set aside for projects in rural areas. Given recent changes in the program's direction and priorities, potential eligibility of VTA's BART Phase II TOC Strategy Study infrastructure needs is uncertain.	X	X	X	X

Source: Strategic Economics, 2019.