Increasingly, states are recognizing the benefits of targeting infrastructure, housing, and economic development investments in a coordinated fashion to location-efficient areas. These are areas where residents can reduce the number and duration of necessary car trips, such as neighborhoods within walking distance of public transit stations or within walking, biking, or short driving distance of job centers, as well as village or town centers. Among many other benefits, policies to foster location-efficient development can generate:

- **Savings on public infrastructure costs** due to more intensive utilization of both existing and new infrastructure investments, such as water, sewer, and roadways
- **Reductions in energy use**, greenhouse gas emissions, commute times, and traffic congestion due to reductions in the number and frequency of necessary car trips
- **Increased ridership** to support public transit
- **Economic growth** arising from the clustering of people, jobs, and businesses

While desirable in many respects, the targeting of infrastructure investments to location-efficient areas can also have the unintended consequence of stimulating sizable increases in nearby land costs that price out the low- and moderate-income families who could benefit most from access to public transit and other amenities. Consider, for example, the impact of announcing a new light rail transit system. In many cases, developers will bid up the price of land around proposed stations based on the increased development potential of such well-located property. Similar price effects can sometimes be seen in neighborhoods undergoing more modest redevelopment activities as well.

Unless balanced by an effective affordable housing strategy, rising land prices will displace existing low- and moderate-income families, causing them to relocate to outlying locations and undermining many of the energy and infrastructure costs savings associated with location-efficient development.

The solution to this dilemma is for state agencies and departments to encourage and support local policies that ensure that new development near transit stations and job centers and in village and town centers is affordable to families of all incomes. Such policies can help to:

- **Provide equitable access** to public transit and location-efficient areas by families of all incomes, races, and ethnicities
- **Minimize displacement** of existing residents, preventing a flight to more remote areas that would undermine the environmental and ridership goals of location-efficient development
The solution to this dilemma is for state agencies and departments to encourage and support local policies that ensure that new development near transit stations and job centers and in village and town centers is affordable to families of all incomes.

- **Increase the diversity** and vitality of these communities.

- **Advance public health goals** by expanding access to walkable neighborhoods and—by decreasing the combined costs of transportation and housing for low- and moderate-income families—increase the amount of funds such families have available to spend on nutritious food and health care.

This paper summarizes the policy options available to state officials interested in encouraging sustainable growth that is both equitable and location-efficient. These include steps to:

1. **Undertake a state planning process to guide the strategic allocation of state resources.** State planning initiatives establish an overarching vision for housing, transportation, and land use and guide development decisions at the local and regional levels. State agencies can also update other planning documents to reflect sustainable development priorities.

2. **Remove roadblocks to strategic local action.** Obstacles to sustainable development at the state level can be eliminated through passage of enabling legislation to authorize local adoption of inclusionary housing policies, tax increment financing, and other programs that can be used to support sustainable development, including amendments to rehabilitation codes which, when outdated, may drive up the cost and discourage the redevelopment of existing structures.

3. **Provide incentives to localities that promote location-efficient development patterns.** Financial incentives and offers of low-cost financing support or reward implementation of equitable and location-efficient land-use policies.

4. **Provide direct incentives to consumers and developers to promote investment in location-efficient areas.** Incentives may include priority for Low-Income Housing Tax Credit awards in location-efficient areas, low-cost financing and tax incentives for projects in targeted areas, and matching funds to supplement employer-assisted housing programs.

This memo is part of a series on the policy options available to state, regional, and local governments to ensure that development oriented around transit, job centers, and in village and town centers includes housing options affordable to families of all incomes. Additional memos that address tools available at the local and regional levels can be found at www.nhc.org/sustainable.html.
Undertake a State Planning Process to Guide the Strategic Allocation of State Resources

A well thought-out planning process helps to ensure policies and programs across departments and levels of government are working in concert to address common goals. It is a critical first step for promoting sustainable growth that is both equitable and location-efficient.

Engage in Comprehensive Planning at the State Level

A comprehensive state land use and transportation plan lays the groundwork for all of the tools described in this brief. When done well and with extensive opportunities for resident input, just the process of creating a plan helps to strengthen partnerships and build momentum and support for equitable development. Whether the planning process is initiated and managed by a state agency or some other entity, a steering committee composed of engaged stakeholders from across sectors and levels of government typically provides ongoing guidance and oversight; this group may continue to meet after the plan has been adopted to oversee implementation and strengthen ongoing partnerships and coordination. Following adoption, the shared goals and priorities articulated within the plan provide a road map to guide future growth and decision-making at the state, regional, and local levels, as well as a benchmark against which to measure results.

In 2006, the State of Rhode Island adopted Land Use 2025: State Land Use Policies and Plan, its third state-wide plan for land use, conservation, and development.1 The plan establishes a set of goals, objectives, and strategies to guide future growth and investments and coordinate land use planning at the state and local levels. Among the key goals that organize the plan are “A Sustainable Rhode Island,” which focuses on concentrated growth within existing urban areas and community centers, and “Community Design,” which includes making available a diverse and affordable housing stock. Cities and towns must prepare comprehensive plans that align with the state plan, which are subject to state approval.

Update the Consolidated Plan to Reflect State Growth Goals

To be eligible to allocate federal block grants that support affordable housing—including funds made available through the HOME, Community Development Block Grant, Emergency Shelter Grant, and Housing Opportunities for People with AIDS programs—all states (and some localities) must prepare and submit a Consolidated Plan to the U.S. Department of Housing and Urban Development (HUD). The Consolidated Plan, or ConPlan, merges into one process and one document all of the planning and application requirements for these programs, including an assessment of housing need and a plan for how federal resources will be used to address that need.

While HUD does not currently require states or localities to consider proximity to transit, access to job centers, or local land use regulations, it does give them the authority and flexibility to include these factors when preparing a needs analysis or designing a strategy for the allocation of federal funds. The State of Vermont’s 2010-2015 ConPlan,3 for example, places a high value on “facilitating development and growth in Designated Downtowns and Village Centers” and incorporating “Smart Growth” principles into land use planning, and lays out several direct actions in support of these goals, including rehabbing underutilized or vacant properties in central business districts and participating in projects that leverage transportation grants and other state and federal funding sources.

State Growth Management Programs

State growth management programs help to ensure that local and regional planning efforts align with state priorities for future development. Some states, such as Florida and Rhode Island, require all local jurisdictions to prepare a plan; others limit this requirement to certain areas. The State of Washington’s Growth Management Act, for example, directs large and growing counties and the cities within those counties to prepare comprehensive plans that describe local strategies for managing growth in a manner that promotes state goals related to sprawl management, protection of open space, affordable housing development, and other key issue areas. As part of the planning process, counties must identify “urban growth areas” in which future growth will be concentrated over the next 20 years. The state provides technical assistance and guidance, as well as funding support, for local planning efforts, and regional Growth Management Hearing Boards determine whether a plan is in compliance with state goals. Plans found to be out of compliance may be subject to reductions in state funding.2
Remove Roadblocks to Strategic Local Action

By continuing to enforce outdated policies or failing to adopt enabling legislation that broadens municipal authority, states may limit innovation at the local level.

Amend State Rehabilitation Codes to Ease the Redevelopment of Existing Homes

Preservation of existing affordable homes—particularly those near transit stations or other amenities—is a critical element of sustainable development. In some states, however, building codes create an obstacle to the modernization and redevelopment of older buildings, often by requiring that rehab projects achieve compliance with current code standards even if doing so adds significantly to the cost of the project without contributing significantly to greater safety. Rehabilitation codes are special building codes designed to make it easier to renovate older structures by scaling building code compliance requirements to the scope of the planned work. The State of New Jersey’s Rehab Subcode is one of the best-known rehabilitation codes.4 Implemented in 1998 after a two-year development process, the mandatory statewide Rehab Subcode replaced requirements in traditional building codes with a flexible set of standards based on the type and extent of work proposed. Smaller repair projects prompt the fewest additional requirements; renovations, alterations or reconstruction of the structure call for increasing levels of stringency; and additions must be in full compliance with new construction standards in the new portion of the building.

Adopt or Amend Enabling Legislation to Protect Local Policies That Promote Location-Efficient Development

All states fall somewhere on the spectrum between “home rule” states, in which municipalities have broad authority to govern their own internal affairs, and “Dillon’s Rule” states, where localities enjoy only those powers directly conferred on them by the state government. Especially in Dillon’s Rule states, state enabling legislation is critical to avoiding legal challenges to the adoption of land use and many other ordinances. Failure to obtain explicit authority may lead to accusations that the locality exceeded its statutory authority, rendering the ordinance invalid.

Enabling legislation helps to ensure the legality of many local tools that support the creation of transit-oriented and location-efficient mixed-income residential developments, including inclusionary zoning policies, establishment of land banks, joint development public/private partnerships, and tax-increment financing (TIF). Local officials interested in creating mixed-income housing around new transit stations in Denver, Colorado, for example, secured a change in state enabling legislation to reverse a restriction prohibiting the Regional Transportation District from selling land from joint development for residential use.5 The State of Maine amended its TIF legislation to make transit-oriented development TIF-eligible.6

Split-Rate Taxation

In most local taxing jurisdictions, property owners pay the same property tax rate on structures and land. Communities that have adopted a split-rate taxation policy, however, apply a higher rate to land and a relatively lower rate to structures on the land. This approach is intended to penalize speculative investors who hold unimproved or underdeveloped lots in the hopes that property values will rise, a practice that contributes to leapfrog development and sprawl. While only a few jurisdictions in the United States have adopted split-rate taxation, enabling legislation has been adopted in Hawaii and Pennsylvania.
Local jurisdictions have direct authority over zoning policies and other land use regulations. Some states offer incentives to localities to promote land use and transportation planning and adoption of policies that support sustainable growth. States may also wish to make eligibility for infrastructure support or other growth-related state funds contingent on local adoption of a sensible land use and affordable housing strategy.

**Provide Financial Awards to Communities That Plan for and Adopt Location Efficient Land Use Regulations**

While municipalities have direct authority over land use decisions, states can influence development patterns by providing incentives to jurisdictions that adopt zoning codes and other policies that support location-efficient development. Through the Smart Growth Zoning Overlay District Act (codified as Chapter 40R), for example, the State of Massachusetts offers financial awards to local jurisdictions that establish mixed-use “smart growth zoning districts” (SGZDs) in existing town or city centers, near public transit stations, or in other appropriate areas as determined by the community. Land use regulations within overlay zones set aside at least 20 percent of new homes as affordable to low-income families and allow higher-density development as-of-right (i.e., without the need for special permits or approvals). Once a district has been approved and adopted, municipalities receive an incentive payment up to $600,000, depending on the number of additional homes made possible by adoption of the overlay zoning. Additional bonus payments of $3,000 are awarded when a building permit is issued for each of these units. A companion measure, Chapter 40S, reimburses localities for the net cost of educating children in new homes in SGZDs.

Alternatively, states may change the way they allocate existing infrastructure and other funding for growth-related activities to prioritize projects that are in localities that have adopted land use regulations and other policies supportive of the development and preservation of location efficient mixed-income communities. For example, in allocating funding for large transportation investments, such as expansion of a transit line or a new highway interchange, states can prioritize proposals from applicants that have adopted policies to preserve existing affordable housing and ensure that new residential development located near the proposed transportation investment includes housing affordable to families of all incomes, including low- and moderate-income families.

**Offer Localities Favorable Financing to Support Targeted New Development and Infrastructure Projects**

Some states make available to localities affordable financing to enable projects that enhance connections between affordable homes and public transit and other amenities. These funds can go a long way when communities act early to acquire low-cost land located near a proposed transit station or other infrastructure investment and likely to appreciate in value. Through the State of Minnesota’s Land Acquisition for Affordable New Development (LAAND) initiative, for example, local governments and agencies may apply for low-cost loans to acquire land intended for future development of affordable homes. A group of public and private organizations that includes the state Housing Finance Agency offers loans through LAAND; depending on the funder, borrowers either pay a modest interest rate for the loan term with the principal due upon re-sale of the land; or repay upon re-sale the principal plus a share of any appreciation since the original purchase. Beneficiaries of the program must bank the land purchased with program funds for at least one year and development must begin within five years of the loan agreement. Projects located near job centers and public transit or that otherwise minimize transportation costs receive priority consideration, as do projects that build in affordability requirements longer than the program minimum.

**Influencing Development Through Priority Funding Areas**

Some states take the incentive-based model described above a step farther by limiting state investments in infrastructure, economic development, and other growth-related activities to designated growth areas. The State of Maryland, for example, directs most of its growth-related expenditures to Priority Funding Areas (PFAs), which include all incorporated municipalities and areas within the Baltimore and Washington beltways, as well as other areas identified by local governments that meet existing infrastructure and zoning criteria (subject to state approval). The state focuses expenditures of many state funds within PFAs, including all major construction projects supported through the Maryland Department of Transportation, Department of Housing and Community Development programs and projects related to the construction or purchase of new single and multi-family homes, and land acquisition and public improvements funded through the Department of General Services. While not uncontroversial, this approach falls short of imposing regulations or requirements, and leaves localities to choose whether to establish land use policies that qualify them for PFA status.
Provide Direct Incentives to Consumers and Developers To Promote Investment in Location-Efficient Areas

In addition to working with localities, many states also take direct steps to promote sustainable development patterns through incentive programs for developers, local employers, and consumers.

Amend Low Income Housing Tax Credit Criteria to Favor Location-Efficient Development Patterns

The Low Income Housing Tax Credit program is one of the largest sources of federal funding for affordable housing, and has supported the creation or rehabilitation of over one million rental units since its introduction in 1986. In general, demand for the 9 percent tax credit far surpasses supply, and the criteria that determine a project’s chances of receiving an award can have a powerful influence on development proposals. These criteria are laid out in a federally mandated document, called the Qualified Allocation Plan, or QAP, that describes the state’s annual priorities in allocating the tax credits.

Some states have amended the QAP to favor development proposals that advance sustainable development principles. The State of Arizona’s 2011 Qualified Allocation Plan, for example, awards a maximum of 30 points out of some 300 possible points to projects that meet “transit-oriented design” criteria, including project location in proximity to a mixed-use center, high capacity transit station or quality bus transit. Similarly, the State of Connecticut awards a maximum of 18 out of 100 possible points to projects that meet “responsible growth” criteria. Items in this category recognize transit-oriented development or, in areas without transit, location in a conservation area or community center, proximity to a public park or recreation center, and adaptive re-use of a vacant or abandoned structure.

Provide Low-Cost Financing for Projects Near Transit

The high cost of land near existing or planned transit stations can push the cost of development prohibitively high, particularly for nonprofit or mission-driven developers of affordable homes who already operate under budget constraints. States can offer programs that provide gap financing and other low-cost financial assistance to ensure the inclusion of homes for low- and moderate-income families in new transit-oriented development.

Tax Credits for Infill Development

The State of Missouri’s Neighborhood Preservation Act promotes infill development and helps to stabilize neighborhoods by providing tax credits to reduce the state tax liability of individuals and organizations that build new homeownership units in designated areas. Eligible areas, in which property owners may receive a tax credit equivalent to 15 percent of qualified construction costs up to $25,000, include infill sites where the new home will replace a 40+ year-old structure and vacant properties that have been designated for 40+ years as residential, utility, commercial, railroad, or other real property. The median household income of the census block group in which the property is located must be between 70 and 90 percent of the median household income for the metropolitan statistical area (MSA) as a whole. (In areas where the median household income is less than 70 percent of the MSA median, property owners may receive a tax credit up to $40,000.) All projects must be completed within two years of the preliminary approval date.
Through its Commercial Area Transit Node Housing Program (CATNHP), for example, the State of Massachusetts provides up to $10 million to support the production of new homes in transit-accessible commercial areas. As specified in the program’s enabling legislation, at least one-half of homes supported by CATNHP must be affordable to households earning no more than 80 percent of the area median income, and the new units must be located within one-quarter mile of an existing or planned transit station. Developers may request up to $750,000 per project or $50,000 per unit; rental projects receive a 30-year deferred payment loan at zero percent interest, and the project must remain affordable for the duration of the loan. (Homeownership units have a 30-year deed rider on the property.)

Offer Tax Incentives to Steer Development to Targeted Areas

Many states offer tax incentive packages to attract employers; several offer extended tax benefits to employers who locate or expand their company in transit-accessible areas or in proximity to affordable homes. The State of Illinois’ Economic Development for a Growing Economy (EDGE) tax credit program, for example, provides special incentives to companies considering a competing offer to locate or expand their operations in another state. Qualifying companies may receive a non-refundable credit against their state corporate income tax liability, payable for up to 10 years, in an amount equivalent to new employees’ state income tax withholding. Passage of the Business Location Efficiency Incentive Act in 2006 authorized the state to provide an increased or extended tax credit for EDGE recipients that site their projects in location-efficient areas. Eligibility for additional tax credits may be established in several ways. Proposed projects may be located within one mile of regular and frequent mass transit, or near owner-occupied or rental housing affordable to a typical worker at the company, or they may maximize use of existing infrastructure or avoid or minimize the need for additional public infrastructure investment.

Match Employer-Driven Efforts to Address the Jobs-Housing Mismatch

A growing number of employers provide housing assistance to help employees cover the cost of buying or renting a home. Assistance can take a number of forms, including grants or loans that may be applied toward downpayment and closing costs or renters’ security deposits and company-sponsored homeownership education and counseling classes. Some states partner with employers to offer Live Near Your Work (LNYW) programs that build on this model to support the purchase or rental of homes in proximity to the workplace. In addition to helping employees find affordable housing options, LNYW programs contribute to lower transportation costs and commute times.

The State of Maryland’s House Keys 4 Employees program, for example, matches employer contributions up to $2,500 to help employees at participating companies cover downpayment and closing costs. State matching funds are provided as a zero percent deferred loan, payable upon refinancing or the sale of the home, and homebuyers must use a Maryland Mortgage Program loan to be eligible for participation. An enhancement to House Keys 4 Employees, Smart Keys 4 Employees, offers an additional $1,000 to borrowers who purchase a home within 10 miles of their workplace or live and work within the same local jurisdiction. Over 100 employers participate in the programs, including Johns Hopkins University, Prince George’s County Public Schools, and more than a dozen local and county governments.

Public Sector Roles

Transit-oriented and location-efficient development requires coordination and cooperation among many actors, including public officials at all levels of government. Each jurisdiction has a different role to play:

**Local jurisdictions** act mainly as a direct implementer of the land use policies that make location-efficient development possible. Localities are also typically responsible for responding to and managing relationships with the various stakeholders involved in a project, including local residents and business owners.

**Regional organizations,** including Councils of Government (COGs) and metropolitan planning organizations (MPOs), assist local communities in collecting data and creating plans to guide future growth. COGs and MPOs also often serve as a vehicle for coordinating local actors. MPOs have a critical role as the conduit through which federal funding for transportation projects is allocated.

**State government** is responsible for creating a vision for future growth, establishing overarching priorities and laying the ground rules for action at the regional and local levels. States also have state-generated financial resources to offer as incentives or to fund high-priority projects.
In September 2011, the Center for Housing Policy released an online policy guide, Promote Sustainable and Equitable Development. The guide, available through the www.HousingPolicy.org Toolbox, provides detailed information on many of the policy tools described in this brief. HousingPolicy.org is the Center’s “one-stop shop” for information on state and local housing policy and includes additional policy guides on a range of topics, including increasing the availability of affordable homes and improving residential energy efficiency.


Endnotes


[7] In Dillon’s Rule states, local authority to enact and enforce zoning codes and other ordinances may be subject to legal challenge. See, for example, County of Chesterfield v. Tetra Associates, LLC, 279 Va. 500 (2010) and Marble Technologies v. Hampton, 279 Va. 409 (2010).


[9] LAAND is not strictly limited to local jurisdictions; nonprofit organizations and private developers may also apply for funds.


[13] The 4 percent Low Income Housing Tax Credit is a second, less well-known tax credit that is worth about half as much as the 9 percent credit but is a renewable resource that is not subject to the same annual allocation caps. Learn more about the 4 percent tax credit on HousingPolicy.org at: http://www.housingpolicy.org/toolbox/strategy/policies/4_percent_tax_credit.html.


