



2008 National Interagency  
Community Reinvestment Conference



# Childcare and Charter School Facilities Tour

Tuesday, April 1, 2008





2008 National Interagency  
Community Reinvestment Conference

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# Charter School Background Information



# **Millsmont Academy**

## **3200 62nd Avenue, Oakland, CA 94605**

*A Student Today. A College Graduate Tomorrow.  
A Learner for Life!*



Founded  
Fall 2004

Sponsoring District  
Oakland Unified School District

Enrollment 2007-2008  
222 students in grades K-5

Student Composition  
African American: 61%  
Latino: 32%  
Pacific Islander: 5%  
White: .5%

Free/Reduced Lunch: 75%

English Language Learners: 26%

Staff  
Principal, Kristin Gallagher  
Office Manager, Charisina Imara

### Facility Development Project

Aspire received a loan from the Low Income Investment Fund in the amount of \$85,000 to cover leasehold improvements and fees associated with the build-out of Millsmont's leased facility at 3200 62<sup>nd</sup> Avenue, Oakland, CA 94605.

The School is located in a primarily residential neighborhood; 65% of the students currently enrolled come from the immediate neighborhood.







## Report to the Community JUNE 2006

# Overview of Charter School Facility Development and Financing

### **Purpose of Study**

This report was commissioned by the Low Income Investment Fund (LIIF), a nonprofit community development financial institution (CDFI) headquartered in San Francisco, California. Since 1999, LIIF has provided more than \$67 million in capital through 82 loans to support the development and operation of charter school facilities throughout the state of California. In the course of these transactions, LIIF and its partners have become keenly aware of the opportunities and challenges inherent in charter school facility development and financing. Given the continued demand for and growth of charter schools in California, it is critical that the industry capitalize on opportunities to provide California's youth with the education they deserve. An important piece of this effort is a clear understanding of the variety of charter school facilities and the types of financing mechanisms schools use to access and develop their facilities.



Compared with traditional public schools, California charter schools serve:

- a higher percentage of low-income students,
- twice the percentage of African-American students, and
- a higher percentage of students with academic difficulties.

– California Charter Schools Association “CCSA”, 2005

This report documents the current fiscal and physical arrangements of California charter school facilities, as well as the resources used by charter school operators to access facilities. LIIF hopes that the information contained in this report will provide a useful framework for schools, policymakers, lenders and charter school supporters in their efforts to design better programs, policies and products to meet schools’ needs. This report does not debate the merits of charter schools, but simply provides information on the current state of charter school facility development and financing within California.

### About Charter Schools

Charter schools are independent public schools that operate under contracts, or “charters,” for a fixed period of time—up to five years in California. They are authorized by entities such as the State Department of Education, county school boards and local school districts; the latter is the most frequent authorizer. Charter schools are permitted to operate free of many of the rules and regulations that govern traditional public schools; this autonomy is intended to promote innovation in local education practices. In exchange for increased flexibility, charter schools are held strictly accountable for performance measures such as academic

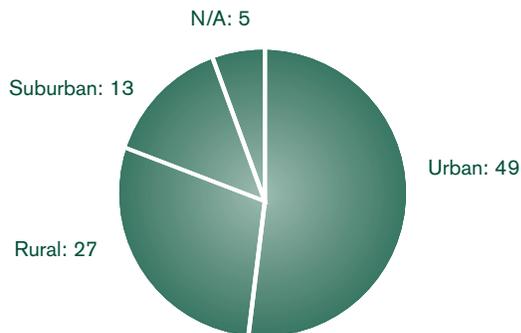


Figure 1: Breakdown of Respondents

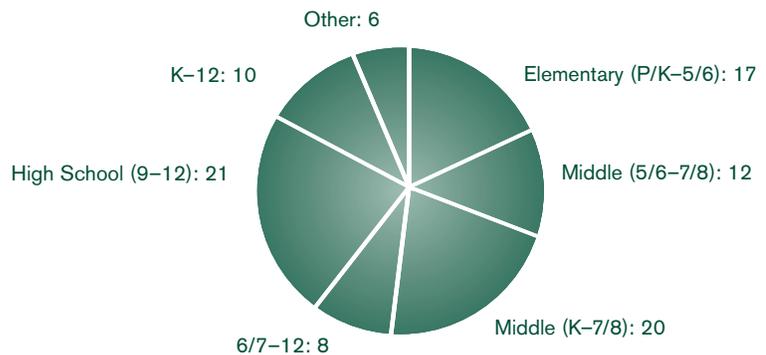


Figure 2: Grades Served by Charter Schools

achievement, and their charters may be revoked for material noncompliance. Charter schools must be nonsectarian and admit students on a first-come, first-served basis, or through a lottery system if demand exceeds capacity.

Charter schools face even greater financial challenges than traditional public schools. Unlike traditional public schools, charter schools do not receive a dedicated capital funding stream to cover the costs of their facilities. Though California has instituted some initiatives, such as Proposition 39<sup>1</sup> (Prop 39) and Propositions 47 and 55<sup>2</sup> (Props 47/55) to help with facility financing, charter schools, in general, must use operating dollars to fund the costs of leasing, purchasing and renovating their school facilities. Public schools, on the other hand, receive special allocations from state bonds and financing to cover their facility costs.

### Study Methods

In Fall 2005, LIIF sent a survey to all 574 registered charter school operators in California. Of that group, 95 operators, almost 17 percent of the state’s charter schools, responded to the survey. In-depth interviews with 10 respondents (representing the diversity of charter schools across the state) provided additional context for survey results.

The survey questions covered three main topics:

1. Development of charter school facilities, including information about the types of facilities occupied and how facilities are selected
2. Costs of various facilities solutions and the impact of those costs on charter schools’ budgets
3. Various forms of financing used by charter schools

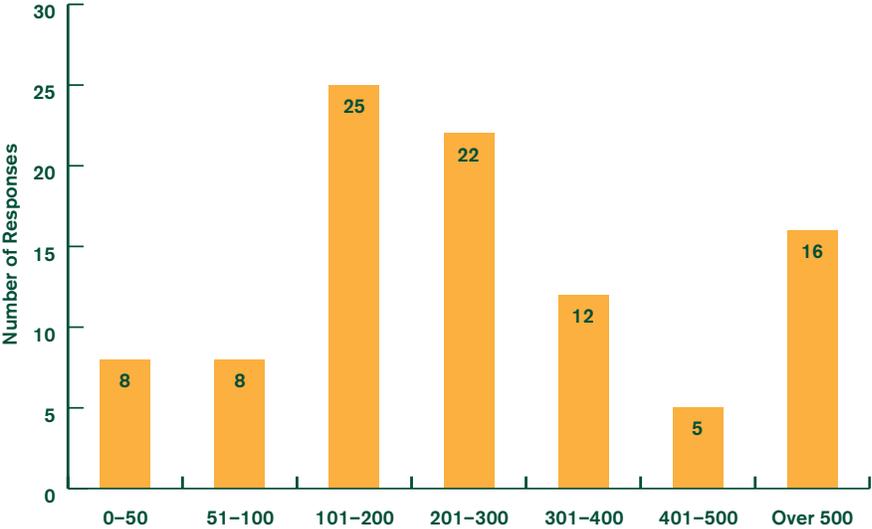


Figure 3: Number of Students Served by Charter Schools

1. Proposition 39 was passed by California voters in 2003. It requires school districts to provide facilities for charter schools serving 80 or more in-district students, in exchange for a minimal management fee.

2. Propositions 47 and 55 were bond measures passed by California voters in 2002 and 2004. They provide \$25 billion in funding for kindergarten-through-college facilities, with \$400 million reserved to provide site-based and financially sound charter schools with construction or renovation funding.



Because portables require a relatively low capital outlay, some schools see them as an economical long-term solution, while others use them as an interim option while they seek permanent sites.

Survey results highlight charter schools' need for additional technical assistance, more information about available resources, and new and flexible financial products and services to finance school facilities. The figures throughout this report represent statistical information from the charter schools that responded to the survey.

### Facility Development

In general, charter schools choose facilities that provide adequate space, are readily available and are reasonably priced. Due to increasing enrollment, expiring leases and facilities that do not provide enough space for new programs as schools mature, more than half of survey respondents have moved at least once during the life of their charter.<sup>3</sup> While a few public initiatives, such as Prop 39, support facility development, charter school operators require additional help and access to information to more effectively identify and develop permanent and suitable school facilities.

### Types of Facilities

Charter schools are housed in a wide range of buildings. The most common facility types are vacant school buildings, religious facilities,

portable buildings and office spaces. Approximately 30 percent of study respondents (29 operators) use vacant school buildings, including former trade schools, vocational schools and adult learning centers, for their charter schools. This is the most commonly used facility type.

Only 15 respondents obtained sites through Prop 39 arrangements, suggesting that legislation intended to help charter schools secure facilities falls short of its goal. Yet there are opportunities for school districts and schools to forge mutually beneficial relationships. For example, University Preparation School (University Prep) in Camarillo is currently housed in an existing Pleasant Valley District school building. The district leases the building on favorable terms (i.e., \$1/year) to University Prep because the previous school closed and the site was unused.

Religious facilities, used by more than 20 percent of respondents, are the second most common facility type. These facilities, which are overwhelmingly located in urban areas where other space is often unavailable, offer stability for survey schools. For instance, more than 75 percent of schools in the study that lease religious facilities have been at the same

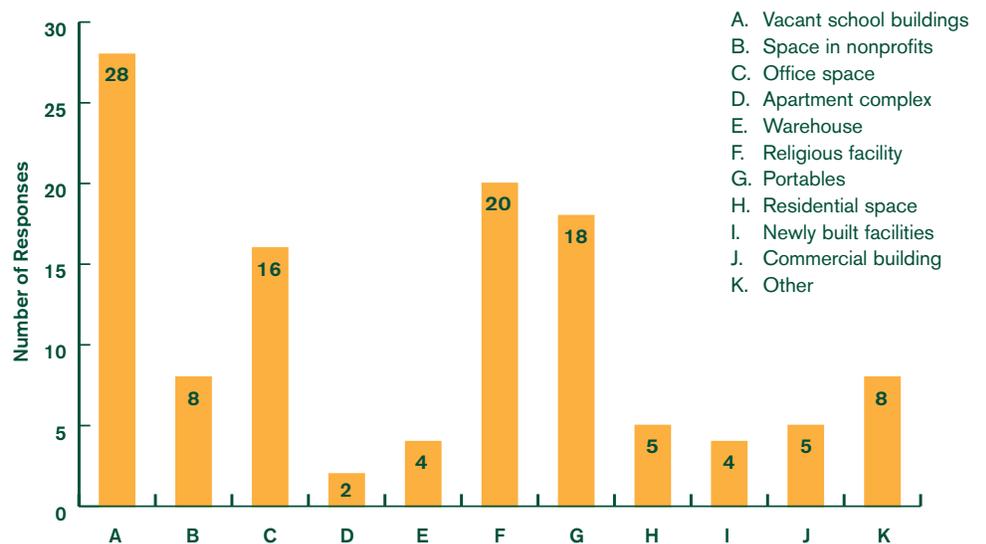


Figure 4: Prior Uses of Current Charter School Facilities

3. A charter can be renewed multiple times for five-year periods, assuming the school meets its performance and operational goals.

facility for the duration of their charters, as compared with 34 percent of all survey respondents. Stability helps solidify school culture and programs and alleviates the expenses associated with moving and/or constructing new sites.

The third most commonly used facility type is the portable building; almost 20 percent of respondents use this type of facility. These structures are often more economical and less time-consuming to develop than new buildings constructed from the ground up. Because portables require a relatively low capital outlay, some schools see them as an economical long-term solution, while others use them as an interim option while they seek permanent sites. For example, Leadership Public Schools (Leadership) in Richmond is housed in portables near a district high school. This temporary solution enabled Leadership to open relatively quickly. As the school grows, however, Leadership will look for a larger, more permanent site.

Other commonly used facility types are commercial office space (11 percent of schools surveyed) and facilities of other nonprofit organizations (8 percent of schools surveyed). Schools also share nonprofit office space. For example, Desert Academy of Applied Arts and

Sciences in Victorville shares a portion of its facilities with services such as legal aid, health care, counseling, tutoring and athletics at night. During the day, the school has full use of the building.

**Time to Find a Facility**

Finding a facility can be a time-consuming process. Lack of real estate development experience among charter school operators is a key factor contributing to the amount of time needed to identify and develop facilities. More than 33 percent of study respondents required a year or more to identify and develop their facilities.

In addition to facing a shortage of affordable sites, respondent charter school operators are challenged by their inexperience in facilities development. Frequently, the schools surveyed noted that their lack of real estate development and financing experience hindered their efforts. In response, several schools opted to cultivate relationships with intermediary organizations, such as charter school real estate developers, to benefit from outside expertise and allow school leaders to focus their attention on the school’s educational program.

If mutually beneficial, one of the quickest ways for charter schools to identify and secure facilities

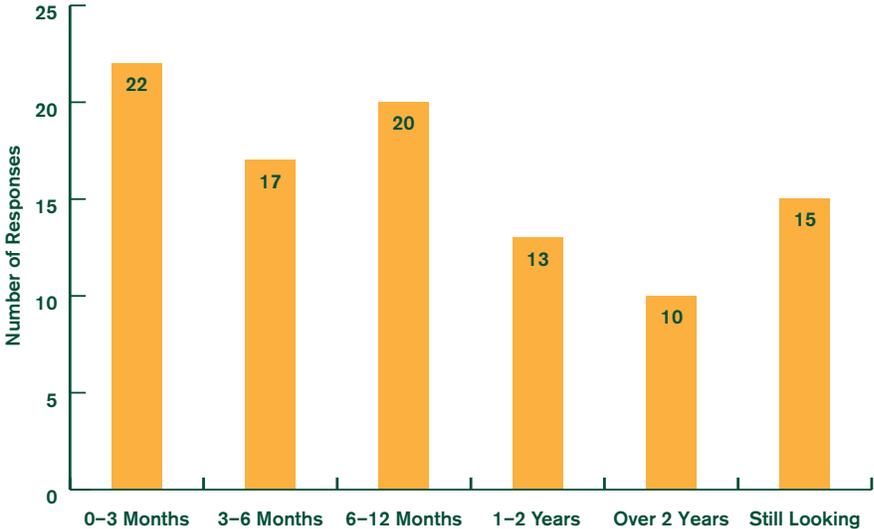


Figure 5: Time Required to Secure a Site



Charter schools use a combination of debt financing, public funds and philanthropic grants to finance their facilities and operations.

is through Prop 39 arrangements, since awards are made the April following the application deadline in December. Twenty-five percent of schools able to locate a site within one year were Prop 39 recipients. For example, Leadership used Prop 39 arrangements to identify locations for two of its four schools in under a year, which enabled them to move into the buildings during the summer.

According to the results of this survey, respondent high schools and schools located in urban areas require more time to identify and develop facilities. Most of the 10 schools that reported spending more than two years looking for facilities were high schools and schools located in urban areas. High schools require larger sites than facilities for the lower grades, and real estate costs in urban areas are higher than they are in rural areas. In addition, there is often a shortage of urban land appropriate for development.

Despite the amount of time and resources spent to find and develop their original school sites, more than 50 percent of respondents moved to new facilities at some point during their charter.

### Facility Cost

In line with charter schools nationwide, survey respondents spent an average of 13.5 percent of their annual operating budgets on facilities. Only 16 percent of study respondents were able to maintain annual facility costs at less than 5 percent of their budgets. More than 50 percent of these schools remained in the same facility throughout their charters, indicating that low facility costs can contribute to charter school stability.

### Lease vs. Buy

In California, charter schools receive less money per student than traditional public schools. A 2003 study by the Fordham Foundation showed an average gap of \$2,200 per student per annum between district schools and charter schools. Further complicating their financial challenges, charter schools, unlike traditional public schools, must cover facility costs from operating funds. Without the resources required for the up-front costs of purchasing facilities, nearly all of the schools surveyed chose to lease rather than purchase their facilities.

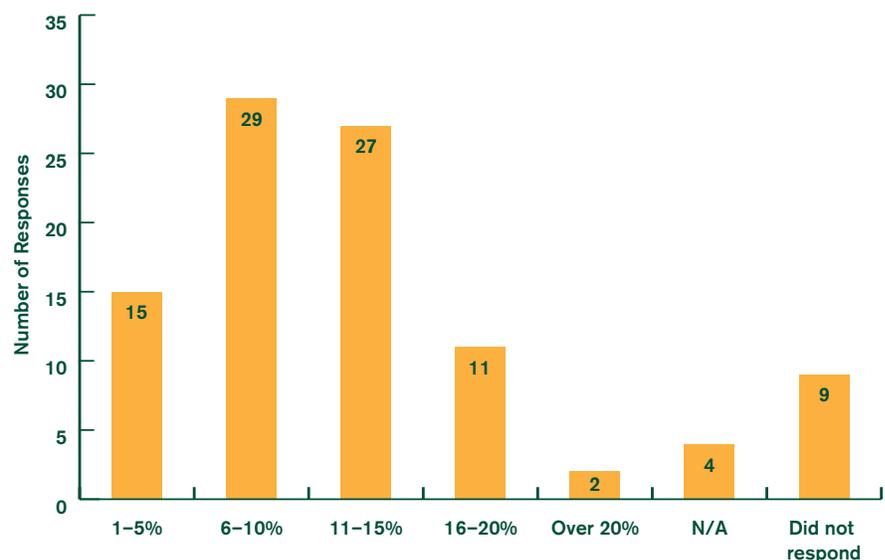


Figure 6: Average Facility Expense as Percentage of Budget

In fact, fully 95 percent of study respondents lease their facilities, with 70 percent securing below-market lease terms. The advantages of leasing facilities include increased flexibility for the school and greater availability and affordability of leased sites compared with sites available for purchase. However, 85 percent of leasing respondents incurred costs for renovations outside the scope of the lease. Schools that find long-term sites also spend a significant amount of time and resources renovating the facilities to make them useable as classrooms and administrative offices. Renovations may also include ensuring compliance with the Americans with Disabilities Act, installation of sewage systems and utility connections to portables. Furthermore, renovation costs on leased space do not contribute to the schools' equity and are not recovered by the charter schools.

Only five survey schools purchased their sites. The purchasing process is both costly and time-intensive, and includes development and construction costs, time required to plan and secure use, and building permits. Despite these challenges, purchasing facilities helps stabilize and build equity for charter schools.

## Facility Financing

Charter schools use a combination of debt financing, public funds and philanthropic grants to finance their facilities and operations. Though there are challenges involved in securing these dollars, study respondents repeatedly noted that, for California charter schools, demonstrating positive academic achievement helps offset challenges and attract funding.

### Factors Affecting Funding

In California, charters are granted for a maximum term of five years, and many charter schools in the state have brief operating histories. As a result, traditional banks tend to discount charter schools' ability to service long-term debt without collateral, significant equity or third-party credit enhancement as an additional source for loan repayment. For new, small, independent charter schools, finding ways to provide this additional protection can be challenging.

Study respondents report that, in their experience, financial institutions review the following factors to determine credit-worthiness:

- Length of charter
- Student enrollment, including current level and trends over time
- Academic achievement
- Fiscal results
- Programmatic focus
- Years in operation
- Composition and experience of management and the board of directors

Capital providers appear to focus the most on a school's operating history, enrollment and academic achievement, and financial performance. Positive trends are seen as evidence of a charter school's stability and predictors of continued success, both operationally and fiscally.

### Debt Financing

Many charter schools have relatively short operating histories and limited operating margins, factors that, when combined with the potential for charter revocation, often cause traditional financial institutions to perceive charter schools as risky borrowers. As a result, private capital offered to the charter school industry often reflects a high risk premium, pushing the cost of capital above what many schools can afford. In general, debt financing is reliably available only to charter schools that have been in operation for a number of years or to those that have strong parent companies or partners, as well as those that seek alternative sources of financing from public and nonprofit sources to guarantee or credit-enhance private debt.

Thirty percent of respondents incurred debt to operate or finance the facilities they own. The sources of financing include bank-supplied lines of credit and term loans, and loans from nonprofit lenders.

Less than 20 percent of all schools surveyed obtained bank lines of credit, which were often used to cover short-term or emergency expenses. These loans enable the charter schools to borrow at their discretion up to a specified loan limit. They often come with short payback periods and high interest rates (up to 16 percent for some of the respondents).



Though nearly 60 percent of the charter schools surveyed were successful in securing public funds, the challenges involved in doing so prevent even broader utilization.

Nearly 10 percent of study respondents acquired bank term loans, which were most frequently used to spread large-scale facility expenditures over long time horizons. On these loans, interest and principal are repaid on fixed dates, usually over several years. For banks to consider providing long-term financing, schools must be able to show a long histories and often at least one charter renewal. Study respondents secure the long-term facility loans with deeds of trust.

A smaller percent of respondents obtained loans from nonprofit lenders. These loans range from short-term, cash flow loans to long-term, multi-million-dollar acquisition and construction loans. Nonprofit lenders accustomed to charter school lending often offer more flexible terms, tailored to fit the needs of charter schools that may not meet traditional banking standards.

**Public Financing**

In recent years, California has expanded and created new state and local initiatives to help reduce the costs of developing and operating real estate for charter schools. Table 1 summarizes the most commonly used initiatives. Though nearly 60 percent of the charter schools surveyed were successful in securing public funds, the challenges involved in doing so prevent even broader utilization.

Prop 39 was an early attempt to solve facility challenges for charter schools. Prop 39 arrangements vary throughout the state and are often plagued by adversarial relationships between school districts and charter schools. Respondents report that some districts adhere to only parts of the proposition. In Northern California, Aurora Charter High School brought legal action against Sequoia Union High School District for not fully complying with the tenets of Prop 39; the school was awarded a facility in 2002. In 2005, in response to San Diego Unified School District’s offering vacant school buildings to private schools rather than to Fanno Academy and KIPP Adelante, two charter schools, both schools brought suits against the district in an attempt to force compliance with Prop 39; this case is still under review.

Many respondents opt to lease directly from local school districts rather than apply for Prop 39. Leasing directly from the district can help charter schools avoid the challenge of locating facilities in the short period between April, when districts make Prop 39 offers, and September, the start of the school year, should the school fail to make adequate arrangements through Prop 39.

Respondents reported that public funding programs are often oversubscribed and have

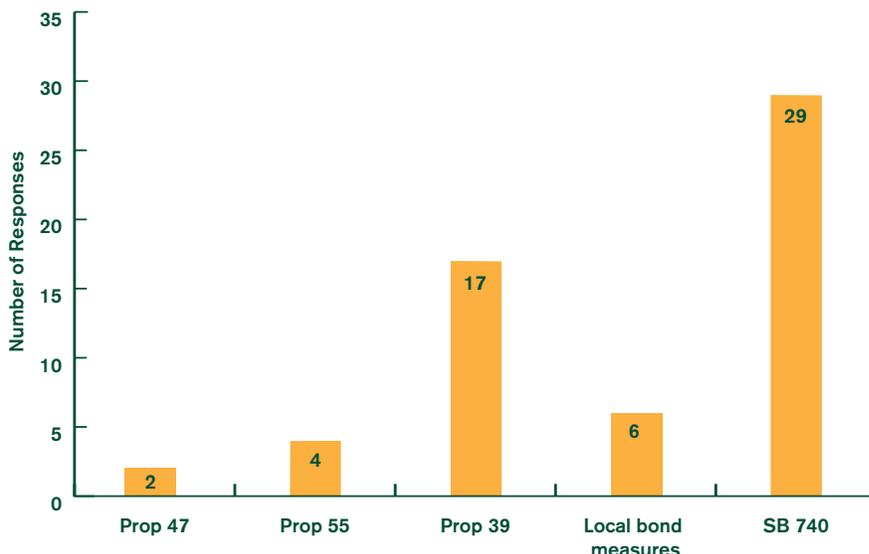


Figure 7: Sources of Public Funding

<b>Initiative</b>	<b>Date Effective</b>	<b>Primary Purpose and Eligibility Requirements</b>
Charter School Facilities Incentive Grants Program	2005	Distributes \$50 million over five years in per-pupil facilities aid that can be applied toward the cost or toward the purchase, design and construction cost of new facilities. Charter schools must be in operation for one year and be in good standing with authorizer.
Charter School Facilities Program (Propositions 47 and 55)	2002 and 2004	Provides site-based and financially sound charter schools with construction or renovation funding, with 50% of project costs as a grant from bond proceeds and 50% in matching funds from the charter schools. Local school district retains ownership of the property.
Proposition 39	2003	Requires school districts to provide charter schools with facilities “reasonably equivalent” to district facilities and at nominal cost to the charter school. Charter schools must serve 80 or more students residing in the district.
SB740	2002	Provides charter schools with reimbursement for facility rental and lease costs of up to \$750 per student or 75% of total annual facilities costs. To be eligible, schools must enroll a student population with 70% eligibility for free and reduced lunch or locate in an area where 70% of the local elementary school students are eligible for free or reduced lunch. Schools must apply annually in a competitive process for this funding, which is often capped at a level insufficient to meet demand.
Charter School Revolving Loan Program	2001	Provides new charter schools with county district codes and California Board of Education numbering with loans of up to \$250,000 for cash flow needs, with up to five years for repayment. To be eligible, charter schools cannot be conversion charter schools or charter schools renewed by their charter authorizing entity.
Qualified Zone Academy Bond (QZAB)	1997	Provides schools in Empowerment Zones or Enterprise Communities, or rural and urban schools serving students with at least 35% eligible for free or reduced lunch, with favorable debt service terms through a tax credit to the provider of the financing. Schools must develop partnerships with private organizations that make contributions to the school worth at least 10% of the money borrowed using the QZAB in exchange for the tax credit.

**Table 1: Public Initiatives to Fund Charter Schools in California**

Lack of access to adequate facilities can undermine the full potential of charter schools to provide educational opportunities for California youth.

extensive requirements that make acquiring this financing challenging. For example, Prop 47 is a bond measure that provides \$13 billion in funding for kindergarten-through-college facilities; only \$100 million of this funding was allotted to charter schools. According to the schools that responded to the survey, the bond's long list of requirements and regulations—including firm limits on allowable expenses—discourages schools from applying. In January 2004, the \$100 million was disbursed to six charter schools, two of which responded to this survey. Even if a school is awarded bond funding, lengthy negotiations with the district can slow the process down significantly. For example, one charter management organization has been waiting 18 months to use the funds because of lengthy negotiations with the district.

Another obstacle to the use of public programs reported by survey respondents is the need to secure political support from city officials, often in a climate of competing public interests. The two respondent charter schools that accessed the QZAB, a subsidy for schools serving low income students, were able to do so with the support of city officials, who acted as partners in the process. Charter schools with QZAB allocations benefit from reduced costs for bank financing, as QZAB provides a tax credit to lending financial institutions.

Other issues that discourage survey respondents from accessing public financing include lack of awareness of their financing options and lack of capacity to negotiate and compete for these limited resources.

### Grant Financing

Nearly 40 percent of survey respondents engaged in organized capital campaigns to acquire or upgrade facilities. A few respondents mentioned having strategic plans for their campaigns and indicated that they would benefit from technical assistance in this area. Nevertheless, respondents planned to raise from \$100,000 to \$20 million, with 30 percent working to raise between \$1 million and \$5 million.

### Conclusion

This report summarizes some of the key issues facing charter school facility development and financing in California. The responses LIIF has highlighted point to the complexity of these issues, which are often a result of local or individual school circumstances that could be addressed through broad industry improvements. For long-term viability, charter schools must continue to draw from a variety of financing options and tools, including public programs, loans from banks and nonprofit organizations, and donations. The need for ongoing, school-specific technical assistance with real estate development and financing cannot be ignored. Continued revision and expansion of public policies better suited to support charter school facility development are also needed.

Lack of access to adequate facilities can undermine the full potential of charter schools to provide educational opportunities for California youth. Greater knowledge of facility financing practices can increase opportunities and reduce obstacles for current and future charter schools in the state and nationwide. LIIF hopes that this information will facilitate a broad-based discussion around best practices and strategies to support the continued growth of charter schools in California. By working together to address the challenges and pursue the opportunities highlighted here, the charter school industry and financial institutions can continue to ensure that California's children receive an education worthy of their potential.



## Survey Participants

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The Low Income Investment Fund (LIIF) thanks the leaders of the following charter schools for participating in this survey.

Abraxis Charter School  
Academia Avance  
Academy for Career Education  
ARCH Charter School  
Bert Corona Charter School  
Biggs Public Charter  
Camino Nuevo Charter Academy  
Castle Rock Charter School  
Center for Advanced Research & Technology  
Challenge Charter High School  
Chico Country Day School  
Children's Community Charter School  
Choices Charter School  
Chrysalis Charter School  
Chula Vista Learning Community Charter School  
College-Ready Academy High School  
Constellation Community Middle School  
Crossroads Charter Academy  
Diamond Mountain Charter High School  
Discovery Charter School  
Dolores Huerta Learning Academy  
Edward B. Cole, Sr. Academy  
Eel River Charter School  
El Rancho Charter School  
El Sol Santa Ana Science & Arts Academy  
Emerson Parkside Academy Charter  
Forest Charter School  
Fresno Preparatory Academy  
Gabriella Charter School  
Gateway High School  
Golden Eagle Charter School  
Green Dot Public Schools  
Growing Children  
Guidance Charter School  
Hickman Elementary  
High Desert Academy of Applied Arts & Sciences  
High Tech High Bayshore  
Jacoby Creek Charter School District  
James Jordan Middle School  
Jola Community School  
Kings River-Hardwick Elementary School  
KIPP Academy of Opportunity  
KIPP Adelante Preparatory Academy  
Lake County International Charter School  
Language Academy of Sacramento  
Leadership Public Schools Richmond  
LEAP Academy  
Learning For Life School  
Lighthouse Community Charter School  
Literacy First Charter School  
Long Valley Charter School  
Los Angeles Leadership Academy  
Manzanita Charter School  
Mattole Valley Charter School  
Mid Valley Alternative Charter  
Millsmont Academy  
MIT Academy  
NEW Academy of Science & Art  
New Millennium Institute of Education  
North Woods Discovery School  
Northern California Polytechnical Academy  
Nubia Leadership Academy  
Oakland Unity High School  
Oasis Charter Public School  
Oasis High School  
Orange County Educational Arts Academy  
Ocean Charter School  
Opportunities Unlimited Charter High School (OUCHS)  
Opportunities for Learning  
Pacific Community Charter School  
Pacifica Community Charter School  
Palisades Charter High School  
Paradise Charter Middle School  
Pathways Charter School  
Piner-Olivet Charter School  
Public Safety Academy  
PUENTE Charter School  
Redding School of the Arts  
Renaissance Arts Academy  
Rocklin Academy  
Sixth Street Prep School  
Synergy Charter Academy

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## Report to the Community: Overview of Charter School Facility Development and Financing

### *Survey Participants, cont.*

Trillium Community Charter School  
Twin Rivers Charter School  
Union Hill Charter  
University Preparation School at CSUCI  
Valley Oaks Charter

Visalia Charter Independent Study  
W.E.B. DuBois  
Wilder's Preparatory Academy Charter School  
Willits Charter School  
Yuba River Charter School

LIIF also thanks the leaders of the following charter schools (in addition to two anonymous participants) for their additional time and candor:

ARCH Charter School  
Bert Corona Charter School  
El Sol Santa Ana Science & Arts Academy  
High Desert Academy of Applied  
Arts & Sciences

Lake County International Charter School  
Leadership Public Schools  
Pacific Community Charter School  
University Preparation School at CSUCI



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# Report to the Community

## Charter School Financing: Challenges, Opportunities and Lessons Learned

Sixty percent of charter schools plan to expand their facilities in order to increase their schools' enrollment.<sup>1</sup>

Because charter schools have limited access to facilities financing, the Low Income Investment Fund (LIIF), a national Community Development Financial Institution (CDFI) based in Oakland, California, developed an innovative charter school facilities lending program. To enhance its work in this area, and support knowledge creation in the growing field of charter school lending, LIIF commissioned a study of selected charter school facility lenders nationwide. This survey, conducted in the spring of 2002, and updated in 2004, was designed to develop a better understanding of the landscape of the charter school financing market, and to build the collective knowledge base of organizations lending to charter schools.

LIIF surveyed six of the most active nonprofit and for-profit groups engaged in charter school facility financing across the country. Collectively, survey participants have made approximately 220 loans totaling nearly \$200 million to charter schools. Participants were asked to discuss their experiences, challenges faced and lessons learned with respect to their charter school loan portfolios. Survey questions explored topics such as motivations for engaging in charter school lending, characteristics of the market, size and structure of loans, strategies for mitigating risk, challenges and success factors.

While charter schools are a growing market for both CDFI and capital market lending, the field is still young. Very little information has been disseminated among lenders about best practices. It is hoped that this survey will increase this shared knowledge, as well as catalyze the growth of new charter school facility funders across the country.

### Background

#### Growth of the Charter School Industry

The charter school movement grew out of a history of educational innovations, such as alternative schools, magnet schools, public school choice and school privatization. According to the US Department of Education's US Charter Schools Web site:

"The term 'charter' may have originated in the 1970s when New England educator Ray Budde suggested that small groups of teachers be given contracts or 'charters' by their local school boards to explore new approaches. Albert Shanker, former president of the AFT, then publicized the idea, suggesting that local boards could charter an entire school with union and teacher approval. In the late 1980s Philadelphia started a number of schools-within-schools and called them 'charters.' Some of them were schools of choice. The idea was further refined in Minnesota and based on three basic values: opportunity, choice and responsibility for results."

The charter school movement is growing at a remarkably rapid pace. The first charter school law was passed in Minnesota in 1991, followed by California in 1992. By 1995, 19 states had signed charter school laws, and by 2004 that number had increased to 41 states, Puerto Rico and the District of Columbia.<sup>2</sup> There are currently approximately 3,000 charter schools serving 800,000 students across the country.<sup>3</sup> Charter schools are becoming increasingly prevalent in low income communities in response to the overcrowded, neglected and underperforming schools that are often characteristic of these communities, all of which inhibit a productive learning environment.

#### Facility Challenges

In spite of this rapid pace of growth, the vast majority of charter schools lack adequate facilities. Locating and financing a suitable school facility is one of the greatest challenges facing charter school developers, and can often delay the approval and start-up process for months or even years. Particularly in urban areas, facilities are extremely scarce, and school founders typically lack the capital and real estate development expertise required to lease or purchase a site. According to a study conducted in 2001 by The Charter Friends National Network and Ksixteen LLC, the average annual lease and/or loan payment for facilities is \$192,000. This cost amounts to 12 percent of the average school's overall budget. Some schools (3 in 10) spend 15 percent or more of their funds on facilities.<sup>4</sup>

#### Opportunities

##### Who Is Lending to Charter Schools?

While most charter schools have historically relied on traditional banks, landlords, bond proceeds, donations and/or state funds to finance the cost of facilities, these funds are characterized by restrictive terms, high rates and limited availability.

Given the financing challenges charter school developers face, many schools are beginning to seek loans from less traditional sources, such as CDFIs and other community development lenders. Many CDFIs and community development lenders that lend to charter schools view a strong education system as a critical anti-poverty tool. In turn, these lenders offer products and services that are responsive to the needs and financial constraints of charter schools in their lending areas. Further, these groups are often able to offer loans that can accept a higher risk level and/or unusual terms unattractive to commercial financiers.

All survey participants represent financial institutions with some degree of explicit focus on community development and with a significant track record of lending to charter schools. Three survey participants are CDFIs, one is the social investing office of a large



Due to the rapid pace of growth, the vast majority of charter schools lack adequate facilities.

**“Charter schools ... provide a public education alternative in targeted areas with high poverty and low performing school districts. It is an investment in the region’s human capital.”**

insurance company, one is a local bank and one is the development arm of a national bank. Four participants are nonprofit organizations and two are for-profit organizations. These participants were selected for their high volume of financing for charter schools and the diversity of their experiences.

Only one survey participant had a national focus for its charter school lending program. As such, many states, including those with a large number of charter school students, can get overlooked due to a lack of investors in their region. For example, participants have been less active in three states with a large number of charter schools (Texas, Arizona and Florida). Because of the regional focus of most survey participants, their borrowers tend to be concentrated in the Midwest, East Coast and Southeast, with the largest loan disbursements in Michigan, New Jersey, North Carolina, Pennsylvania and Washington, DC.

Survey participants stated that community development is their primary motivation for charter school lending. When asked to elaborate on this, participants said:

“We feel that strong public schools are a cornerstone of any solid community. Good schools keep families involved in neighborhoods, and this involvement is an essential element of community revitalization.”

“[We lend] to charter schools to provide a public education alternative in targeted areas with high poverty and low-performing school districts. It is an investment in the region’s human capital.”

“Charter schools can catalyze community economic development in low income neighborhoods.”

## What Is a Typical Charter School Facility Loan?

The charter school lending experience of these six organizations can be characterized in the following ways:

- The average loan size is approximately \$880,000.
- Most of the loans (over 50 percent) are greater than \$600,000 and increasing in size.
- The most common use of funds (approximately 50 percent) is for predevelopment, acquisition or construction.
- Leasehold improvement loans account for approximately 20 percent of survey participants’ charter school loans.
- The remaining loans are for working capital or other purposes.
- The vast majority of charter school loans are concentrated in low income areas, reflecting the motivations of the community lenders surveyed.

Overall loan performance is very strong. Nearly all of the participants reported that they have had no write-offs.

## How Are Charter School Loans Structured?

Most participants reported a loan-to-value ratio starting at 75 percent, moving towards a high of 100 percent on real estate, and a debt service coverage ratio of 1.1–1.25. Cash flow from school operations is the primary source of loan repayment.

Five of the six participants stated that they have or would be willing to accept a subordinate position to other lenders. However, the decision to subordinate is heavily contingent upon the identity of the other lender.

Survey participants vary widely in their use of guarantees. They are required by most when the loan-to-value ratio is high (and when financing leasehold improvements), and lenders have used a wide variety of sources for those guarantees.



**Overall loan performance is very strong. Nearly all of the participants reported that they have had no write-offs.**

Regarding guarantees, lenders said:

“Guarantees are sought when the partner organization can offer a needed credit enhancement to the borrower. In some cases, where the real estate holding entity is the borrower, guarantees or a security agreement with the charter school is required.”

“We have used third party collateral on some loans, such as a second lien on a founder’s home, or stock from an individual. Guarantees are ... more common than collateral. We always get government guarantees when they are available.”

### How Have Charter School Loans Performed?

Only one participant reported a significant number of loans requiring material restructuring. Three lenders reported no loans requiring material restructuring.

Participants reported, however, that the vast majority of borrowers require a significant amount of technical assistance from the lender or an outside service provider. Most technical assistance takes place as part of the underwriting process, and is focused on financial planning. Participants universally considered technical assistance to be a critical success factor, although most said that they do not have the resources to provide in-depth support themselves. Regarding technical assistance, participants said:

“[We do not] provide formal technical assistance to charter schools. However, throughout the underwriting process, we work with applicants to improve the quality and clarity of their financials, budgets and projections.”

“Our objective is to provide a viable financial framework for the school. We provide assistance in areas such as board development and charter authorization. We also help borrowers access accountants, real estate appraisers and lawyers.”

### Who Are Charter School Borrowers?

Charter schools are operated by a variety of organizations. They include stand-alone schools, both for-profit and nonprofit Education Management Organization (EMO)-managed

schools, nonprofit Charter Management Organizations (CMOs), and schools that are affiliated with a local nonprofit group, such as a community development corporation or a youth development organization. Approximately two-thirds of the financing provided by the groups surveyed was provided to a school affiliated with an EMO, CMO or a local nonprofit group.

Borrowers also vary significantly in terms of the stage of their organization’s development, strength of management and level of expertise. All survey participants have financed schools in their start-up stage, and some work almost exclusively with start-up schools. However, given the additional risks involved with a start-up venture, other participants prefer to focus on more mature schools. In all cases, though, the school leaders often lack strong project planning and financial skills.

### Key Lessons Learned

#### **Solid Management Experience Is Critical to a Successful Deal.**

All of the lenders participating in the survey stressed the importance of a strong management team in ensuring the success of a charter school transaction. Particularly when working with start-up schools, lenders said they pay special attention to the depth and breadth of the management team, as well as the involvement of a nonprofit affiliate or partner such as an EMO, community development corporation or technical assistance provider.

They look carefully at management quality and stability, especially the make-up of the board, when assessing the viability of a deal. The capacity of the management team is an important factor not only in the successful completion of a deal, but also in the ongoing operation of the school. This view is extended by some survey participants to include consideration of the value added by EMOs, CMOs and other (usually local) community sponsors of a charter school.

Given the importance of a charter school’s management team, a future study should focus explicitly on assessing the value added by the participation by an EMO or sponsoring agency.

The capacity of the management team is an important factor not only in the successful completion of a deal, but also in the ongoing operation of the school.



Of note, however, the one participant that has made loans to a significant number of EMO-managed schools is planning to strengthen its collaboration with selected EMOs. Nevertheless, challenges arise in the relationship between an EMO and the local school with which it is working.

“The EMO may have the expertise, but the school’s Board of Directors has the final decision. As lenders we need to know that our borrower, even as part of an EMO, has the ability to make independent decisions.”

Without guidance from an EMO or other sponsoring agency, borrowers often need to rely almost exclusively on their own internal expertise due to a lack of high quality technical assistance providers or involvement by the authorizing agency. Survey participants expressed frustrations with the hands-off approach of most charter authorizers.

“The charter school authorizers are not always actively involved. They tend to be more passive due to either lack of resources or expertise.”

As a result, lenders place a great deal of emphasis on “the importance of solid management with clear controls and decision-making

processes.” Further, several participants emphasized that a strong sponsor, often a community group, was key in facilitating the control and processes for a number of their charter school borrowers.

Board leadership is essential to the overall strength of the management team. Lenders pay close attention to who is on the board, the level of commitment of board members, and the depth and breadth of experience they bring. According to one survey participant,

“It is important to look carefully at all facets of the leadership team. Make sure the board is a ‘true’ board with a broad range of skills and experience.”

Some lenders work closely with the school to help develop the board by identifying key needs and recruiting individual board members with the requisite expertise.

### **Technical Assistance Is an Essential Part of the Deal-Making Process and Beyond.**

While technical assistance is rarely a formal requirement, lenders suggest that it is a critical part of the deal-making process. As mentioned earlier, most survey participants reported that they work closely with their borrowers to



**It is often difficult for schools to find high-quality technical assistance on real estate financing and development.**

package a deal, and some also play a significant part in other aspects of the school's development, such as project planning, board development or real estate management. However, they also noted that most technical assistance was provided at an early stage as an integral part of underwriting the loan, and was of a limited nature after the loan was made. Further, most participants said that it is often difficult for schools to find high-quality technical assistance on real estate financing and development.

The bulk of the technical assistance provided by lenders revolves around the process of putting the deal together. In the earliest stage, there is a need to manage the expectations of the borrower as far as timing is concerned. They often need to be educated about the process and timeframe for getting the loan packaged and approved. Many first-time borrowers are unaware of the lead time required, and approach the CDFI much too late in the process.

Many loan officers spend a great deal of time working with the borrower at the outset to frame the deal, and provide financial planning and project planning help. Most borrowers lack financial acumen—often they have never had experience with budgeting or projections. A “heavy dose of reality” is often needed to get the deal done. Of this need for assistance, participants said:

“Just getting to the closing requires lots of assistance, [especially in the areas of] financial management, legal issues, leasehold improvements and bridge financing.”

“Most of our assistance occurs as part of the underwriting process. We provide some assistance in the area of real estate development, specifically through a resource guide we published and offer for free. Borrowers can sometimes turn to expertise offered *pro bono* via a charter school resource center or other nonprofit or government agency. There are some private technical assistance organizations that charter schools can hire. Technical assistance is not a requirement, though we do encourage it.”

Several survey participants also talked about accessing architects or other professionals with relevant expertise, such as accountants

and lawyers, to provide guidance to charter schools. Technical assistance providers who specialize in working with charter schools also provide help in areas such as curriculum design and teacher recruitment.

Some lenders play an ongoing role in guiding the decision-making and operations of the school. One participant has sat on the board of a school and helps recruit board members with specialized expertise, especially in finance.

### **Charter School Lending Is Yielding Promising Social and Financial Returns.**

While it is too early to assess the long-term financial results of charter school lending, most lenders are pleased with the early indicators of financial performance they are seeing within their charter school portfolios. As stated earlier, only one lender participating in the survey has experienced a loan write-off. They feel that lending to charter schools is proving to make good economic sense, as well as representing a high-impact tool for stimulating community development in low income areas.

### **The Development of Performance Benchmarks Would Facilitate Access to Capital.**

While charter school lending experience has so far been positive, growth of the field, as well as optimal pricing of loan products, will be advanced by the development of school performance benchmarks. As one survey participant noted:

“Absent such benchmarks, schools will be limited in their access to capital, and may be subject to more stringent terms and pricing for credit that may be obtained, reflecting a higher risk assessment than is really justified ... lenders ... charter school operators, authorizers, supporting organizations and even EMOs and CMOs would benefit from development of commonly accepted performance standards that go beyond results of standardized test scores and adequate cash flows to facilitate creation of potential secondary markets for loans and bonds.”

Such benchmarks might include:

- Enrollment as a percent of capacity;
- Enrollment trends and waiting lists;
- Salaries, debt service and fundraising as a percent of revenues;
- Degree of parental involvement; and
- Academic performance and progress on other standards in the charter.

These sample benchmarks could be especially useful if developed and used alongside Moody's Rating Methodology, issued in July 2003. In reporting on its total of \$297 million in rated debt for charter schools, and its opinion on the future of the field, Moody's listed five key factors it used in assessing the quality of charter school debt issuances:

- Service area demographics and enrollment trends;
- Management, policies and fiscal goals;
- Security features, including additional bonds test and flow of funds;
- Oversight issues; and
- Charter renewal risk.

## The Future of Charter School Lending

As the charter school industry further matures, future studies should continue to track lenders' experiences, probe deeper into the needs of charter schools for facilities finance, better document the performance of a larger and more mature market, and test the findings of this report.

Participants are currently exploring the following new initiatives:

- Working with charter school authorizers to increase their level of involvement and focus on accountability;
- Working to build the capacity of charter schools so that they are less dependent on EMOs;
- Increasing the dollar size of transactions;
- Playing a role in the bond market in collaboration with larger banks;
- Bundling services to charter school staff and parents (e.g., consumer education, direct deposit payroll, retirement plans); and
- Expanding the geographic scope of charter school lending.

Several participants are also engaged in policy issues relative to facilities for charter schools. One reported that "I've always envisioned a future which has charter schools gaining access to the tax exempt bond market under terms and conditions comparable to public schools. I see [us] and other CDFIs playing a developmental role that eventually has us working our way out of a job."

Another development in charter school financing was the establishment of the US Department of Education's Charter Schools Facilities Financing Demonstration Program (subsequently replaced by the Credit Enhancement for Charter School Facilities Grant Program). In June 2002, the program awarded the first five in a series of grants intended to demonstrate different approaches to assisting charter schools in obtaining appropriate financing for their facilities. Coincidentally, three participants in this survey are recipients of these awards.

## Conclusion

The most remarkable finding of this survey is the very low level of loan write-offs for charter school loans. It is important to note, however, that lending to charter schools remains a fairly young activity, and the rate of write-offs may increase. Further, participants have made loans to a small portion of charter schools now in operation. Nevertheless, with approximately 220 loans totaling nearly \$200 million, and many loans made to start-up schools, this loan performance experience is quite striking.

Are the special risks that charter schools appear to present to lenders more perception than fact? It will be important to watch this situation closely over the next several years. If loan performance maintains this track record, it may well provide the basis for significant expansion of charter schools' ability to tap commercial capital markets. In fact, one participant reported losing several loan prospects to commercial financial institutions offering lower-priced products to the borrower, and is expecting the market to continue to become more competitive.



**Lending to charter schools is proving to make good economic sense and is a high-impact tool for stimulating community development in low-income areas.**

Perhaps the high degree of technical assistance reported by survey participants is a key factor behind the good performance of charter school loan portfolios. This conclusion seems likely given that survey participants made loans to a significant number of start-up schools and to “stand alone” schools, and that most charter school management teams do not have significant financial skills or borrowing experience. While the survey did not assess the costs of this technical assistance, and therefore cannot compare it to other types of CDFI lending, it is quite possible that those costs exceed what a purely commercial lender would be willing to incur.

As for much other CDFI lending, it may well be that the need for CDFI involvement in charter school financing is driven not so much by the risk of high loan-loss rates as it is by high transaction costs. If true, this would indicate the likelihood of a strong role for CDFIs in the charter school sector for the foreseeable future.

Charter schools are an important innovation in public education and present a growing

opportunity for CDFIs and other community development lenders. Lending experience will deepen considerably over the next several years, including that gained through the US Department of Education’s Credit Enhancement for Charter School Facilities Grant Program, and should be tracked closely so that all may benefit from lessons learned.

The results described in this report provide important illustrations of the charter school lending market, which will need to be closely tracked as the field matures.

1. Charter School Facilities: Report from a national survey of Charter Schools, Charter Friends National Network and Ksixteen LLC, April 2001
2. US Charter Schools Web site: [www.uscharterschools.org](http://www.uscharterschools.org)
3. Center for Education Reform
4. Charter Schools, Charter Friends National Network and Ksixteen LLC, April 2001

In this paper, the term “CDFI” is used to describe lenders with significant community development focus, whether or not they actually have been (or could be) certified as CDFIs.

### Survey Participants

**Center for Community Self Help**  
**City First Bank of Washington, DC**  
**Low Income Investment Fund**  
**NCB Development Corporation**  
**Prudential Foundation**  
**The Reinvestment Fund**

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# Fruitvale Child Care Center Background Information



# Fruitvale Village Project Overview

## Fruitvale Village At-A-Glance

### What is Fruitvale Village?

- A 257,000 square foot “transit village” built on former BART parking lots.
- An active, retail-lined connector between the BART station and the neighborhood’s primary retail artery. This Pedestrian Street and plaza also serve as a major community-gathering place.
- Forty-seven units of mixed-income housing.
- 114,000 square feet of community services (clinic, library, senior center) and office space (including the Unity Council’s headquarters).
- 40,000 square feet of neighborhood retail (shops and restaurants).
- 150 car parking garage within the buildings (plus a large parking structure for BART).

### Project Goals

- To strengthen existing community institutions and catalyze neighborhood revitalization – physically, economically and socially.
- To reduce poverty, build assets, and contribute to the local economy – by providing a stable source of jobs and income.
- To encourage and leverage public and private investment.
- To enhance choices for neighborhood residents, including services and retail choices.
- To provide high quality, affordable housing.
- To improve the perception and reality of safety.
- To beautify a blighted area.
- To increase BART ridership and reduce traffic and pollution.
- To be sustainable and environmentally sound.

### Project Chronology

- 1964:** Unity Council (UC) founded.
- 1969-1974:** Arabella Martinez serves as first Executive Director of UC.
- 1974-1982:** Martinez’s groomed successor leads UC.
- 1982-1988:** Another Executive Director takes over UC; a period of substantial decline follows.
- 1989:** Arabella Martinez returns as UC Chief Executive Officer to “rescue her baby”.
- 1991:** BART announces plans to build a multi-level parking facility at the Fruitvale station. The Fruitvale community opposes the project.

- 1992:** The Unity Council receives \$185,000 in Community Development Block Grant funds to develop an alternative plan for the station. The National Transit Access Center at UC Berkeley and the Unity Council hold a community design symposium.
- 1993:** The Unity Council is awarded a \$470,000 Federal Transit Administration (FTA) planning grant for predevelopment activities, including economic, traffic, and engineering studies of the area.
- 1994:** The Unity Council, BART, and City of Oakland sign a Memorandum of Understanding to form the Fruitvale Bart Transit Village Policy Committee.
- 1995:** The Unity Council holds a series of community planning meetings.
- 1996:** The City of Oakland passes a zoning ordinance, creating a new transit village zone, which allowed higher density, mixed use development and reducing parking requirements around BART stations in Oakland.
- 1997:** The Unity Council creates the Fruitvale Development Corporation (FDC).
- 1998:** The Unity Council gains control of the site through a land swap with BART.
- 1999:** BART receives \$7.65 million from the FTA to build replacement parking near the Fruitvale station. Groundbreaking for construction of the Transit Village project.
- 2003:** Initial occupancy.
- Jan. 2005:** Arabella Martinez retires and Gilda Gonzales takes over as Chief Executive Officer of The Unity Council.

## **Project Description**

### **Overview**

Riding the BART train (which is elevated along this stretch – and especially northbound where you can see most easily to the east), you cannot help but notice a bright, colorful new complex of buildings – with palm trees, banners and apartment balconies all visible from the platform. Descending and exiting the station, one is drawn into a lively pedestrian plaza, lined with retail shops and small restaurants, and equipped with seating areas and a fountain. This path takes you naturally in the direction of the neighborhood’s main commercial artery, International Boulevard, about a block to the east. In a few moments, unless you stop to visit the clinic, library or senior center, you have traversed Fruitvale Village.

### **Urban Context**

The project is located in the Fruitvale neighborhood, a few miles south of downtown Oakland. Historically predominantly Latino (in a city where African-Americans are the majority and whites are a minority), this neighborhood has

become more diverse in recent years with particular growth in the Asian-American population.

Fruitvale was named in the 1800s when German immigrants arrived and planted fruit orchards. Canneries sprang up in the vicinity, providing jobs. The nearby port was also a significant source of employment. The area boomed through World War II, when many minorities arrived to work in defense jobs. The level of business activity resulted in Fruitvale being considered Oakland's second downtown.

Decline began in the 1950s when canneries and factories left the area, followed by white, middle-class residents. The commercial area became less viable as its customer base eroded, and by the 1960s Fruitvale had become a distressed neighborhood, characterized by high density, high unemployment, a large percentage of households below the poverty line, and a high crime rate (though some of these indicators have been improving in recent years). Today, there are many recent immigrants, many of whom are not English speaking. About 53% of Fruitvale residents age 5 and older spoke a language other than English at home: 31% spoke Spanish; 15% spoke an Asian language; and 7% spoke some other language.

The neighborhood is connected to downtown by International Boulevard, a vibrant commercial artery with a wide variety of shops and other businesses. While this area was reported to have had a 40% to 50% retail vacancy rate just 10 years ago, it is now almost fully occupied.

Crime in the area is also reported to have declined significantly. For example, the Fruitvale BART station was reported to have the second highest crime rate in the system prior to the project's construction – and now to have one of the lowest.

## **Fruitvale Village**

### ***Transportation and Pedestrian Circulation***

The neighborhood is very well served by transportation. It is bordered on the west by I-880, the main north-south freeway serving the East Bay. A BART (Bay Area Rapid Transit) line runs through it, with a station, which is part of the project. In conjunction with the BART station (used by 6,400 daily commuters), there is an inter-modal transit hub where 10 local and regional bus lines converge as well as a taxi stand. There is also a bicycle station (part of the project and largest in the United States) that provides free "valet" (attended) bike parking.

A key goal of the project was to connect the BART station to the neighborhood, particularly International Boulevard. In fact, the project's origin

dates to the community's protest over BART's proposal, in 1991, to construct a multi-level parking structure on what was at the time a surface parking lot along East 12<sup>th</sup> Street between 35<sup>th</sup> and 37<sup>th</sup> Avenues, further separating the station from International Boulevard (see Planning Process, below). Instead, the Fruitvale Village was constructed along East 12<sup>th</sup> Street between 33<sup>rd</sup> and 35<sup>th</sup> Avenues and 34<sup>th</sup> Avenue was replaced with a two block pedestrian walkway and plaza, connecting the BART Station and International Boulevard. The Fruitvale Village project flanks the plaza, and its four-story mass frames the space. The plaza gives access to ground floor retail on both sides (see next section for more detail). In the block to the east, by contrast, the plaza faces the mainly blank walls of buildings that front on International Boulevard and, while there is one shop window, some seating, planting and a small stage, it is much less lively than the other block. However, plans call for the establishment of a Public Market for small vendors in this area, which, if successful, would contribute greatly to increasing activity levels. With or without the Public Market, the connection is highly effective and there is a real sense of linkage from the BART station to the heart of the neighborhood.

As part of assembling the project site, the street parallel to the BART line, East 12th Street, was realigned and narrowed to slow traffic, and parking was added along it. This street is also lined with retail and access points to most of the social services.

Parking was a very large issue for this project, in part because BART required that all surface parking that was taken away had to be replaced. While BART originally had funds earmarked for this station's parking garage, the community protest led to those funds being diverted to other stations. The Unity Council had to find the funds to build a new, multi-story parking structure, now completed on the west side of the BART elevated tracks. This structure, along with new surface parking to the north of the station, provides sufficient capacity to replace the spaces in the remaining surface parking lots to the south of the project, which will be the site of the second phase of the Fruitvale Village (see the section on Future Plans, below). The story behind the parking garage is told under Planning Process, below.

### ***Retail***

A total of 40,000 square feet of retail space lines the ground floor along the plaza and the northerly portion of East 12<sup>th</sup> Street, providing a variety of stores and restaurants. Among the businesses included are:

- convenience market (Market One)
- florist (Soap Garden)
- shoe store
- record shop (Acapulco)
- espresso coffee and bakery (Powder Face)

- phone store (DigiCom Wireless)
- bridal shop (Casablanca)
- optometrist
- private dental group (Premier)
- tax service (H&R Block)
- bank (Citibank)
- restaurants (Burger One; Subway; Saigon Wraps; Suruki's; K-Fusion Korean BBQ)

The FDC marketing brochure points to several attractive features of the project, including the transit hub, accessibility, high sales area, adjacent social services – all of which draw traffic. FDC reports an effort to encourage diversity and refrain from competing with existing local businesses. This connection to the local business community derives in part from the Unity Council's long sponsorship of a Main Street program for International Boulevard merchants – and it is clear that “the project” is not limited to the Village, but continues throughout the area, with upgraded storefronts, street furniture, signage, traffic calming, and street trees.

### ***Social Services***

A key component of the project is the generous provision of social services. These tenants (or in the case of the clinic, owners) occupy about 114,000 square feet, mostly on the second floor, and provide several benefits. They enrich the services offered to the community, draw people to the project (which helps the retail and makes it easier for clients to visit other services) – and they provide valuable revenue which contributed to the project's viability.

**La Clinica de La Raza**, a community health provider, is situated at the southeast corner of the project, and occupies all three floors (about 42, 000 square feet) including street frontage. A long-established, substantial institution, La Clinica has many locations and is the largest employer in the Fruitvale neighborhood. It serves a predominantly Latino clientele, though that has diversified along with the region. Its decision to be part of the project brought a second substantial anchor “tenant” (actually, for financing reasons, they required that they own their building and the land it sits on; though, in fact, they sit in part over a shared parking garage).

Locating at the Village, while perceived as very positive for them and their clients, required trade-offs, including getting less space than they might have wished for (on the other hand, the smaller facility also kept down their occupancy costs and they might not have been able to afford more). In deciding which functions to locate at the Village, La Clinica chose to include mainly revenue-generating ones, in order to pay for the space – and to keep other functions in their prior building on Fruitvale Avenue. They find that there is considerable synergy with the Unity Council and its other services; La Clinica offers training

and education as well as direct healthcare services to clients of the senior center and Head Start, and will have a booth at the planned Public Market.

The limited space caused them to be very efficient and some spaces were scaled to be smaller than desired (such as waiting rooms and offices). The first floor has the dental clinic, laboratory, pharmacy x-ray, and cashier. The three main medical clinics (pediatrics, family medicine and women's medicine) occupy the entire second floor and can share exam rooms depending on demand. The third floor has less-visited functions including preventive medicine, social services, administrative offices, and a large conference room.

In terms of design, La Clinica had its own team, which coordinated with the Village's architect (see below), mainly taking responsibility for interior design, but also for early phases of the exterior design. The process was said to have proceeded reasonably well, with accommodations in each direction. The Village's architect did exert final control over the exterior, eliminating arched windows and gabled roofs, which La Clinica wanted.

While La Clinica is a separate operation, the Head Start program is operated by the Unity Council, which leases the space from the Fruitvale Development Corporation, a Unity Council support corporation. The **De Colores Child Development Center** offers a substantial Head Start program serving up to 244 children each week in its 16,000 square foot facility. With an entry on the southwest corner of the project (and a curbside drop-off and pick-up lane), almost the entire facility is on the second floor. There are many classrooms and a large outdoor terrace (over ground floor parking) with play equipment and craft areas.

The **Fruitvale Senior Center**, also operated by the Unity Council, is on the second floor, but in the building to the northeast side of the plaza. With a variety of function rooms, it has access to a second, quieter outdoor terrace (also placed over ground floor parking).

The **Cesar Chavez Library** is a branch of the Oakland Public Library and appears to be well used and a valued amenity in the community. It occupies about 15,000 square feet on the second floor at the northeast edge of the Village and features a variety of areas targeted to specialized uses and user groups (children, young adults, computer users, etc.). In an innovative financing arrangement, the library prepaid 20 years rent (as did the senior center), helping to capitalize the project.

### ***Housing***

Rental housing units occupy the upper two floors of both buildings. They have separate, secure elevator access from the garages and plaza. Forty-one units are loft-style (with double-height living rooms overlooked from the upper level by one or two bedrooms). The one- and two-bedroom units range in size

from about 800 square feet to about 1,100 square feet. All units, market or affordable, have the same, relatively high, level of finishes (including granite counter tops). Of the 47 units, 10 are designated "affordable". The affordable designation sets the rents at a percentage of median income. The rental price of the market rate units is \$1,100 to \$1,700 depending on size and orientation. There is a broad mix of residents in terms of ethnicity and prior housing location due to a widely distributed marketing program. The Unity Council also constructed an attractive 68 unit senior housing project a block or two from the Village (Las Bougainvilleas) and has plans for about 500 more units as part of the Village's Phase II.

**Offices**

There is substantial office space on the second floor on either side of the plaza. On the south, the Unity Council occupies the entire 13,000 square foot space. On the north side of the plaza, there is about 21,000 sf of vacant office space that has not yet gotten its tenant improvements. The FDC has identified it as one of this year's priorities to find an appropriate tenant for this space.

**Parking**

Parking was a key aspect of the project, not only to support the new uses, but due to the requirement to replace all BART parking lost in conversion of the site. BART agreed that, once the multi-story garage was completed, all needed parking would be in place for the Village, including its planned second phase. The site has the following number of spaces:

<b>Location</b>	<b>Spaces</b>
<hr/>	
<b>FDC/Unity Council Parking</b>	
Building A	72
Building B	78
Lot C	138
Phase II lots (on future construction site)	<u>550</u>
Subtotal	838
<hr/>	
(77 Lot C spaces have been given to BART as part of the long-term plan)	
<b>BART Parking</b>	
Parking Garage	558
Derby Street Lot	223
Surface Spaces	<u>28</u>
Subtotal	809
<hr/>	
Total Currently Available Parking	1,647

**Design and Planning**

**Design**

The movement and transportation aspects of site planning as well as the basic disposition of functions were described above. These resulted in the

project being broken into two structures which frame a pedestrian plaza linking the BART station to the neighborhood's commercial artery.

In terms of the project's architectural design, it is somewhat reminiscent of other recent projects in the area (including the RBA winner Hismen Hi-Nu) with visual elements borrowed from the California Mission Style including massing, roofs, and colors. The three- and four-story mass of these substantial buildings is broken down into smaller elements and colors are rich and saturated. Both the architects and the client representatives described the intention to be culturally relevant to the Latino community – but only to a limited degree – and to ensure that other ethnic groups would not have difficulty relating to the image or feel excluded by it. Thus, the image is simplified and modernized, with very limited references to historical forms.

The design of the pedestrian plaza uses multi-colored paving in a swirl pattern, a ramp and stairs to deal with a small change in grade, strategically placed fountain, art and seating to enliven the pathway. With large palm trees and other plantings it is an attractive and well-used space. A great deal of attention was paid to the graphics and signage program, with well-placed information kiosks at each entry, clear directional signage, and integrated informational signage as well. It contributes to the colorful, almost festive character of the plaza.

#### *Planning and Development Process*

As mentioned above, this project grew out of community resistance to BART's proposal, in 1991, to construct a parking garage on a surface lot between the Fruitvale station and the neighborhood's commercial center. BART held a public meeting to present its proposal and received many complaints concerning adverse effects on crime (the station already had the second highest crime rate in the system), blight, traffic, air quality, and separation of the station from the commercial district. Seeing that its plan did not have support, BART agreed to withdraw the plan and work with the community to develop an alternative.

The Unity Council, which had led the opposition, became the natural medium for community participation and in 1992 the City of Oakland gave the Council a grant of \$185,000 from CDBG funds to develop an alternative plan. The Council worked with the University of California at Berkeley's National Transit Access Center to sponsor a community design symposium. Five architectural teams were invited to study and prepare proposals for the site, which were then presented to about 60 community leaders, including then-Mayor Elihu Harris and BART Director Margaret Pryor. Key themes that emerged from the interactions were the need to revitalize the surrounding neighborhood and to better integrate local businesses into the station development. There were subsequent community meetings that took the concept designs to a broader segment of the neighborhood

The following year, based on the success of the initial process, the U.S. Department of Transportation, Federal Transit Authority, awarded the Unity Council \$470,000 to continue and expand planning. In addition to conducting further workshops, the Council commissioned economic, traffic and engineering studies of the site.

In 1994, the three main players formalized their relationship for the project in the form of a Memorandum of Understanding between the Unity Council, the City of Oakland, and BART. This established the Fruitvale Policy Committee – with two representatives of the Council, one from BART and two from the City (including the mayor and the council person representing the area). La Clinica de La Raza also participated in these policy meetings. Apparently, BART had never before utilized such an arrangement to plan the area around a station.

By 1995, workshops were held with the goal of achieving consensus on a conceptual site plan. To reach that place, basic principles were revisited, including discussions about the positive and negative attributes of the existing situation, as well as goals and preferences for the way the Village should be. In the third workshop, participants chose between two alternative plans and the selected one became the direction for the development. It included the principal elements of the actual project: location on the BART parking lots, pedestrian plaza connecting the station to 12<sup>th</sup> Street, ground floor retail and restaurants, and mixed housing, retail and offices.

As the project became more “real”, a structure was put in place to handle its development. The Unity Council formed the Fruitvale Development Corporation (FDC) in 1996. While BART does not normally sole-source its contracts, due to the special nature of the project and the pre-existing relationships to the community and the Policy Committee, for this project it awarded FDC an exclusive negotiating agreement.

Likely, no one anticipated the hurdles that remained or how long it would take to overcome them. One of them was to assemble the development parcel and find a mechanism to give the FDC ownership rights. It took two years to finalize a land swap, whereby the FDC was granted fee simple title to Parcel A which contains the Unity Council’s Offices, its Head Start program, La Clinica de La Raza and the Pedestrian Plaza plus a 95-year lease for Parcel B which houses the senior center and the library in exchange for giving BART a parcel behind the station owned by the Unity Council, as well as other nearby parcels owned by the City. Thus, BART was able to maintain the value of its holdings in the area, a long-standing requirement of its real estate policy.

The other major hurdle was dealing with BART’s policy of maintaining parking spaces. Any spaces lost due to development were required to be replaced one-for-one. This required a structure to accommodate about 500 cars. Remarkably, the Unity Council helped obtain a grant from FTA for \$7.65 million

for this purpose. The Council hoped FDC could build the structure and when that proved to be unacceptable to BART, the cost escalated (due to BART's higher overheads). This would have meant that fewer spaces would be built, which would not have adequately replaced lost parking (for both phases). A remarkable aspect of this story is that the Council had twice to find additional funds in order that the garage be built large enough – and it did. The final increment involved a complex deal whereby the Council borrowed money in part against an income stream it could earn by charging for parking at surface lots on which it would eventually build a later phase. It also got a release from BART from ever having to provide any more replacement parking.

In 1999, plans for the project were finalized, but it took two more years for financing to be secured (see section below). Almost ten years after the initial BART proposal, construction began on Fruitvale Village.

## **Transit-Oriented Development**

This project was conceived of (at least by some participants) as a “transit-oriented development” (TOD). TOD evolved as part of (or in conjunction with) the so-called “new urbanism”. The following excerpt gives a general overview of its principles:

### ***What is Transit-Oriented Development?***

Transit-Oriented Development (TOD) is a simple concept: moderate and high density housing, along with complementing public uses, jobs, retail and services, are concentrated in mixed use developments located at strategic points along the regional transit system. Each TOD has a centrally located transit stop and core commercial area; accompanying residential and/ or employment uses are within an average 2,000 feet walking distance. The location, design, configuration, and mix of uses in a TOD provide an alternative to current suburban development trends by emphasizing a pedestrian-oriented environment and reinforcing the use of public transportation. This linkage between land use and transit is designed to result in an efficient pattern of development that supports the transit system and makes significant progress in reducing sprawl, traffic congestion, and air pollution. The TOD's mixed-use clustering of land uses within a pedestrian-friendly area connected to transit provides for growth with a minimum of environmental and social costs.” (From 1000 Friends of Oregon, *The LUTRAQ Alternative: Volume 3* (1992), p. 8.)

“Transportation planning should be about more than concrete and steel. It should be about building communities and we are all looking to Fruitvale as an example of how that can happen.” — Rodney Slater, U.S. Secretary of Transportation, Fruitvale BART Station, Formal Launch of the Fruitvale Transit Village, July 9, 1999.

## **Organization and Leadership**

From a community perspective, this project was led – from protest through planning, design and development – by **The Unity Council**. The Council was born in 1964 with roots in the anti-poverty movement and Latino organizing (starting with a campaign against a measure that would have rescinded the state’s fair housing act). It started life as the Mexican-American Unity Council, quickly shifting from a political action group to a social service provider. Initially, the Council was concerned with ensuring that this section of Oakland, with its largely Latino population, would get its share of federal monies flowing to the city. Later, it changed its name to the Spanish Speaking Unity Council, to broaden its representation of people with roots from countries other than Mexico. In 1989, recognizing the still-greater diversification of the neighborhood, it ceased identifying itself with any particular ethnic group (though its Latino connections remain evident).

In its years of service to the local community, the Council developed deeply connected roots. It has not only been there for a long time, but has been involved with many people in its diverse programs. These evolved over time in response to funding availability and community need. Some of the programs include, or included, information and referral services, English as a second language, job readiness training, and economic development. As time went on, sponsors (such as the Ford Foundation) suggested that they move into housing; and the Council did, indeed, build a number of housing projects in the surrounding areas (including to the south of Oakland). In this way, the Council became a community development corporation (CDC), though it still sees itself primarily as a community-based service organization – and makes much of the difference in perspective this entails. In other words, despite constructing a very substantial project, it does not feel it is building-project oriented.

The Council was also one of the original providers of urban Main Street programs. This allowed – and indeed required – it to develop even broader ties in the community, since participants were local business and commercial property owners. It was natural, then, when the BART parking garage proposal surfaced, that the Council would act as community spokesman.

### ***Arabella Martinez***

It is impossible to imagine this project happening without Arabella Martinez. Martinez was part of the group that formed the Unity Council and served her first term as its executive director from 1969 to 1974. She returned to the Council in 1989, “to rescue her baby” from a decline so substantial that its continued existence was threatened. In the intervening 15 years, she rose in the social service field to become an Assistant Secretary at the US Department of Health, Education and Welfare in the Carter Administration. Her experience, administrative skills, and contacts in Washington and elsewhere made her an

invaluable asset to the Council. For example, when added funding was needed to build BART's garage, she was able to call Federico Pena, then Secretary of Transportation. As crucial as Arabella's contributions were, she could not do it alone. Another key player was **Manni Silva** who Martinez brought in on her return in 1989 to help turn around the near-defunct Council. Silva's role, from the beginning, was to be the implementer while Martinez focused more on vision, lobbying, and oversight. Silva also had a background in housing development (having built a substantial number of HUD-assisted units), which helped with the interim projects. Once construction on Phase I was completed, Ms. Silva and followed by Ms. Martinez have retired from the organization.

## **Partnerships**

While the Unity Council took the lead on all aspects of this project from the perspective of the community – and then as developer – they “partnered” with a number of entities that contributed to its realization. These partners included:

- Bay Area Rapid Transit District (BART)
- City of Oakland
- Metropolitan Transportation Commission (MPO for Bay Area)
- Federal Transit Administration
- U.S. Department of Housing & Urban Development
- U.S. Environmental Protection Agency

### ***BART (Bay Area Rapid Transit)***

BART was obviously a key player in this project, having started the process with its proposed parking structure and, eventually, making the site available to the Unity Council. BART was represented on the tri-partite Policy Council, but its contributions need to be understood in terms of the role of one of its real estate staff, Jeff Ordway. Within certain strong but flexible limits, Ordway served almost as an in-house advocate for the project. Ordway explained that from BART's perspective in the early 1990s they were losing ridership due to lack of parking at certain stations – thus the parking structure program that included the proposal at Fruitvale. There was little sensitivity to urban planning issues (more of a transportation engineering perspective) and little or no awareness of the emerging principles of TOD; for example, BART often destroyed street grids to create huge parking lots. This was also the first time their projects had been subject to environmental review and they were more than surprised at the community response shown at mandatory public meetings. However, it was not that the community was opposed to the parking structure *per se*; only that it was being plopped down in the wrong place. In order to move forward, BART agreed that the local community could have input, and joined the Unity Council and the City on the newly formed Policy Council.

Why would BART, a regional authority whose main goals are to increase ridership and operate in the black financially, bother to do this? The answer may

lie in its unusual structure, with an elected board composed of representatives of each area it serves. Margaret Pryor, who represented the area that includes Oakland, supported the community – and her fellow board members fell into line behind her. BART was also looking to exploit its real estate holdings adjacent to its stations and entertaining notions of joint development with the private sector. Ordway appears to have been able to insert some “soft” objectives into the equation, including better links from the gates to the community in terms of perceived safety, enlivening the surroundings with retail (more for a Jane Jacobs-like eyes-on-the-street function than as a money-maker), and public service convenience of shopping on the way home. It would also put tax-exempt property back on the rolls, a benefit to local government rather than BART. Ordway was also an advocate for TOD principles, but they were not so clearly articulated when the project started; rather, they emerged in the visioning and design workshops described above.

The relationship between BART and the Unity Council is complex and multi-faceted. At times, BART provided very substantial support. But at other key points, BART was a considerable obstacle (for example, enforcing its policies and standards delayed the project, raised the cost of the parking structure and required it to be larger than it otherwise might have been in order to replace all lost parking spaces). On the other hand, BART also was able to demonstrate considerable flexibility at times bending or changing long-standing policies.

### ***City of Oakland***

The other key partner in this project is the **City of Oakland**. The City was the third member of the Policy Council, provided substantial funding early on and throughout the project, lent expertise and oversight, cooperated in re-aligning and abandoning streets, participated in land swaps that helped assemble the site, and occupies a substantial part of the project with tenant agencies (senior center and library). The city was principally represented by **Ignacio De La Fuente** who started as a local labor leader and organizer and was then elected to be the City Council representative for the area (and more recently has become Council President). De la Fuente was an early community advocate for the project, then shepherd it through numerous city reviews, approvals, and deals. Having such an advocate at the city was essential to the project’s progress, though it appears somewhat unusual from an observer’s perspective that a council member played this role rather than the mayor. However, De La Fuente did, clearly, gain the support of the entire council and the various mayors (mainly Elihu Harris; by the time Jerry Brown was elected in 1998, the project had its major components in place). While Fruitvale Village did not figure prominently in De La Fuente’s first election campaign in 1992, it did for his re-election in 1996.

## **Finances**

### ***Project Development***

The Unity Council and its partners were able to obtain very substantial financing for the project, initially in the form of planning grants, then later as grants and loans for construction. Once basic sources of equity and other contributions were committed, Citibank sponsored tax-exempt bonds for the balance. The variety of sources and complexity of sources was remarkable, even for RBA projects, with approximately 30 different contributors. The table following shows sources and uses for the project.

## **SOURCES OF FUNDS 07/31/04**

<b>Equity</b>	
FEMA	1,045,304
Ford Foundation	122,000
R&R Goldman Fund	300,000
Levi-Strauss	226,881
E&W Haas Jr. Fund	400,000
PG&E	50,000
Neighborhood Reinvestment Corp.	100,000
NCLR	25,000
Land Proceeds	517,025
<b>Total Equity</b>	<b>2,786,210</b>
<b>City of Oakland</b>	
City EDI	3,300,000
EDA Grant	1,380,000
Measure K Bonds (Prepaid lease)	2,540,000
City Library (\$4.5MM prepaid lease)	4,900,000
CDBG/Other	77,339
EPA Grant	99,998
City-BTA Bike Station	400,000
Tax Increment Allocation (B) (LISC)	4,000,000
<b>Total City of Oakland</b>	<b>16,697,337</b>
<b>DOT/BART</b>	
MTC	47,121
FTA Child Development Center	2,300,000
FTA Pedestrian Paseo	780,000
FTA-CMA Bike Facility	400,000
FTA-Pedestrian Plaza	2,228,534
<b>DOT/BART</b>	<b>5,755,655</b>
<b>Interest/Miscellaneous</b>	
Interest/Other	643,707
Additional Bond Funds Interest/Misc.	176,661
<b>Total Interest/Miscellaneous</b>	<b>820,368</b>
<b>Debt</b>	
Unity Council FTV/Perm Loan	885,473
Unity Council Bridge Loan	911,830
NCBDC	750,000

City Section 108	3,300,000
Citibank Subordinate	1,400,000
City Housing Loan	750,000
501 (C) 3 Bonds	19,800,000
<b>Total Debt</b>	<b>27,797,303</b>
<b>TOTAL SOURCES OF FUNDS</b>	<b>53,856,873</b>
<b>USES OF FUNDS</b>	
<b>Predevelopment</b>	
Staff & Overhead	645,985
Contract Services	389,286
<b>Total Predevelopment</b>	<b>1,035,271</b>
<b>Hard Construction Cost</b>	
Off-Site	1,291,931
Building Structure	27,793,806
General Contractor Fees	1,095,138
Construction Contingency	1,679,789
Bond Requirements	144,935
Tenant Improvements	2,341,680
Plaza Improvements	1,800,000
Public Art	24,185
<b>Total Hard Construction Costs</b>	<b>36,171,464</b>
<b>Soft Cost</b>	
Acquisition Cost	1,764
Architecture and Engineering	2,819,787
Permits, Fees & Taxes	773,218
Development Staff/Operating	2,840,686
Utility Hookups	600,000
Environmental Remediation	188,680
Legal, Insurance & Other	744,031
Contingency	630,144
Bike Facility Soft Cost	262,968
<b>Total Soft Costs</b>	<b>8,861,278</b>
<b>Interest and Fees</b>	
Construction Interest	2,671,049
City Section 108	150,000
NCBDC	76,285
Unity Council	172,868
Bond Issuance Cost	790,490
Reserves and Lease-up	323,600
<b>Total Interest and Fees</b>	<b>4,184,292</b>
<b>Bridge Loans</b>	
Unity Council Bridge Loan	911,830
NCBDC	750,000
<b>Total Bridge Loans</b>	<b>1,661,830</b>
<b>TOTAL USES OF FUNDS</b>	<b>51,914,135</b>

**SURPLUS (DEFICIT)**

**1,942,738**

### ***Operating Budget***

The operating budget is almost as complex as the capital financing. Given that FDC and the Unity Council are separate legal entities, they are reported individually. The FDC, with owns and operates Fruitvale Village and three other properties, has about \$3 million in annual revenue.

The Unity Council has an annual operating budget of over \$10 million (plus an additional \$1.5 million for two of its properties) and operates with a net asset surplus. The Council pays about \$300,000 per year in rent for its office space to FDC (not including the De Colores Child Care Center, which The Unity Council also operates).

### **Future Plans**

One of the primary goals of FDC for this year is the completion of lease-up, including the few vacant retail spaces and especially the large vacant office space. Also planned is the opening of the Public Market in the plaza connecting to International Boulevard by The Unity Council. The major project, however, is Phase II of the Village, which will construct housing on BART's surface parking lots to the south on the two blocks next to the Fruitvale Village. Preliminary plans call for 500-600 units. Further project definition and feasibility studies will be conducted in the next year, followed by design, financing and construction on an unknown timetable. The land, however, is tied up for them and The Unity Council currently derives income from parking fees to repay the loan it secured as part of the financing of the BART parking structure. Also, the replacement parking has already been constructed as part of the structure, so that part of the deal, is already complete.

### **Assessing Project Success**

#### **Success in Meeting Project Goals**

- **To strengthen existing community institutions and catalyze neighborhood revitalization – physically, economically and socially.**
- **To reduce poverty, build assets, and contribute to the local economy – by providing a stable source of jobs and income.**
- **To encourage and leverage public and private investment.**
- **To enhance choices for neighborhood residents, including services and retail choices.**
- **To provide high quality, affordable housing.**

- **To improve the perception and reality of safety.**
- **To beautify a blighted area.**
- **To increase BART ridership and reduce traffic and pollution.**
- **To be sustainable and environmentally sound.**

#### Conclusion

The Fruitvale Village experience provides a number of lessons that can be of value to other projects – even ones that are not necessarily transportation-oriented.

**Effective Partnerships.** To some extent, The Unity Council, BART and the City of Oakland make strange bedfellows. Each has its own mandates and interests. However, each apparently realized that they needed the others in order to achieve their own objectives. Thus, they formalized the partnership in 1994 as the Fruitvale Policy Committee. This was of tremendous value to the project, helping it to overcome hurdles as they arose. And, in the end, each of the entities did benefit: The Unity Council improved the community for its constituents (and increased its income and equity, as well as developing its capacity); BART increased ridership (estimated to be between 300 and 600 new daily riders) and improved safety at a problematical station; and the City increased property taxes, became more effective in delivering services, and reduced crime and other problems in what was a troubled neighborhood.

**Effective Leadership.** Convincing Arabella Martinez to return to The Unity Council may be the single most important decision anyone made to benefit the project (though that outcome was unknown at the time). Without her, The Unity Council likely would have failed – while with her, it was in a position to guide the project for the community. The Unity Council appears generally to have understood the importance of careful transition planning. Of course, national connections don't hurt, either. BART found Jeff Ordway who grew into an advocate for the project, and the City's Ignacio De La Fuente provided crucial leadership at that leg of the triangle.

**Public Involvement.** This project started as a parking structure. But community opposition to its placement, voiced at mandatory public hearings, led to an effective community planning process. This happened in part because the community had a history of action and had an effective voice in The Unity Council. Throughout its evolution, key decisions and directions were set with broad input from the community and other stakeholders working together in a public forum. This resulted in strong community support for the project. The

Unity Council contrasts this process, which it characterizes as community-based, with what sometimes happens when well meaning but less community-connected CDCs propose a building project that does not really tap into the community's needs – and may not get the same level of support.

**Perseverance.** This project required more than 10 years of commitment by its participants, with serious stumbling blocks presenting themselves with some regularity. The degree of perseverance required is probably more than could be expected – particularly if the participants had known from the beginning what would be required of them. More likely, the commitment developed gradually as people spent more and more time on the project and began to see its possibilities and benefits.

**Creative Financing.** As described above, this project required highly complex financing – as many as 31 sources had to be tapped, blended and coordinated (since funder's requirements are often different). The Unity Council and its partners showed creativity and flexibility in locating and obtaining support. When a potential source of funds such as the Federal Transit Administration wanted to support the project but could not award funds to The Unity Council, BART agreed to accept the funds and allocate them to the project.

**Quality Design and Construction.** This project would not be as good as it is without a desire for, and commitment to, quality. The Unity Council hired the best professionals it could find to assist it with the project, from consultants and planners to architects and builders. Their approach was to aim for high quality – and then to compromise only where it had to.



# Partnerships, Enhancements, and Public Involvement



# Fruitvale Transit Village Project

## THE UNITY COUNCIL, BAY AREA RAPID TRANSIT DISTRICT, CITY OF OAKLAND

### Introduction

The Fruitvale Transit Village project is the result of a broad-based partnership among public, private, and nonprofit organizations working together to revitalize a community using transit-oriented development. Transit-oriented development is a planning concept that seeks to use mass transit stations as building blocks for economic revitalization and environmental improvement. In September 1999, groundbreaking took place on a \$100 million mixed-use development adjacent to the Fruitvale Bay Area Rapid Transit District (BART) station in Oakland, California. Fruitvale, one of Oakland's seven community districts, is a low-income, predominantly minority community experiencing economic stress. This case study focuses on the incorporation of environmental justice principles into the planning and design of the Fruitvale Transit Village.

The Fruitvale Transit Village is the brainchild of the Unity Council, a community development corporation formed in 1964 by activists who wanted to create a forum for working on issues important to Fruitvale's Latino community. The origins of the project date back to 1991, when BART announced plans to construct a multi-layered parking facility next to the Fruitvale station. Although the community agreed that new

parking was necessary, the design and location of the facility did not sit well with Fruitvale residents and business owners. Members of the community were concerned that the proposed structure would increase traffic and pollution and further separate the Fruitvale neighborhood from the BART station. The Unity Council galvanized neighborhood opposition to the parking structure design and location, arguing that any development around the BART station should be guided by a broad-based community planning process.

Faced with this strong community opposition, BART withdrew its proposal and agreed to work with the Unity Council on a plan for the area. During the next several years, the Unity Council engaged local stakeholders in a comprehensive visioning and planning process that laid out the parameters of the Fruitvale Transit Village. Plans for the Transit Village include a mixture of housing, shops, offices, a library, a child care facility, a pedestrian plaza, and other community services all surrounding the BART station. The project is expected to reduce traffic and pollution in and around Fruitvale because community residents will have access to a range of goods and services within easy walking distance of the transit station.

The Fruitvale Transit Village project illustrates a number of key themes and effective practices that are central to incorporating the principles of environmental justice into transportation planning and design. First, it demonstrates an effective use of partnerships to generate funding and other resources necessary to plan and implement a costly and complex project. The Unity

Council’s success in building relationships with a wide range of key players helped overcome the formidable legal, regulatory, and financial hurdles the project initially faced.

In addition, the project illustrates a strong commitment to public involvement by the lead agencies involved. Typically, either city officials or private developers represent the driving force behind large-scale development projects such as this. Under the best of circumstances, community residents are usually in the position of responding to plans that are initiated by others. In this case, however, the Unity Council’s leadership role in the project helped ensure that the

## What is Transit-Oriented Development?

Transit-Oriented Development (TOD) is a simple concept: moderate and high density housing, along with complementing public uses, jobs, retail and services, are concentrated in mixed-use developments located at strategic points along the regional transit system. Each TOD has a centrally located transit stop and core commercial area; accompanying residential and/or employment uses are within an average 2,000 feet walking distance. The location, design, configuration, and mix of uses in a TOD provides an alternative to current suburban development trends by emphasizing a pedestrian-oriented environment and reinforcing the use of public transportation.

This linkage between land use and transit is designed to result in an efficient pattern of development that supports the transit system and makes significant progress in reducing sprawl, traffic congestion, and air pollution. The TOD’s mixed-use clustering of land uses within a pedestrian-friendly area connected to transit provides for growth with a minimum of environmental and social costs.

Source: Excerpts from 1000 Friends of Oregon, *The LUTRAQ Alternative: Volume 3* (1992), p. 8.

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*“Transportation planning should be about more than concrete and steel. It should be about building communities and we are all looking to Fruitvale as an example of how that can happen.”*

— Rodney Slater  
U.S. Secretary of Transportation, Fruitvale BART Station,  
Formal Launch of the Fruitvale Transit Village, July 9, 1999

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community’s own vision for the transit station and its surrounding area served as guiding principles for the planning and design process.

Finally, the planning effort behind the Fruitvale Transit Village represents an innovative strategy for using mass transit as a lever for revitalizing an urban community. While transit-oriented development has been successful in a growing number of affluent suburban locations, the Fruitvale Transit Village sets a precedent for such projects in lower-income, inner-city communities.

## The Region and the Community

Oakland is situated on the eastern shore of the San Francisco Bay. With a population of 395,000, Oakland is California’s sixth largest city. A thriving port, an international airport, and major transit facilities have made Oakland the major hub for commerce, transportation, and international trade in the Bay Area.

Oakland is a diverse community. African Americans and whites are the largest racial/ethnic groups, with 43 percent and 28 percent of the city’s population, respectively. The other major groups are Asian Americans and Hispanics. Seventy-two percent of Oakland’s population consists of minorities. Oakland’s Fruitvale neighborhood, by contrast, is over 90 percent minority, with Hispanics, Asians, and African Americans representing the neighborhood’s largest population groups.

Fruitvale earned its name in the 1800s when German settlers immigrated to the area to plant fruit orchards.

The community developed a significant manufacturing base anchored by canneries that served local orchards. Fruitvale became a prosperous neighborhood, its vibrant business activity earning it a reputation as Oakland's "second downtown." This boom continued through World War II, when the area experienced an influx of war industry workers, bringing the first significant numbers of African-American and Hispanic residents to the community.

Fruitvale's troubles began during the 1950s, when the construction of new freeways created opportunities for manufacturers to take advantage of cheap land and labor in suburban areas. Canneries and factories located in Fruitvale began leaving the area, accompanied by many of the community's white, middle-class residents. With the erosion of its customer base, the Fruitvale business district went into decline. By the 1960s, Fruitvale had become a distressed neighborhood, plagued by joblessness, inadequate housing, and other problems characteristic of low-income, inner-city communities.

In spite of all this, Fruitvale retained a number of significant assets that represent potential building blocks for community revitalization. One such asset was the neighborhood's strong network of community-based organizations, including the Unity Council. Founded in 1964 by Arabella Martinez, Assistant Secretary of the U.S. Department of Health,

Education and Welfare under the Jimmy Carter administration, the Unity Council developed a solid record of success in bringing together residents, community-based organizations, and businesses to deliver important community projects. The Unity Council's programs include the development and management of affordable housing, business assistance, historic preservation, facade improvements, community festivals, home ownership assistance, job readiness and employment services, Head Start and Early Head Start child development programs, the Fruitvale Senior Center, open space development, and environmental programs.

The Fruitvale BART Transit Village is the outgrowth of a growing interest on the part of the Unity Council in developing a project that would have a large impact on the community of Fruitvale. According to Arabella Martinez, "We felt we needed a project of scale, that a single housing project wasn't going to change the neighborhood." The Fruitvale Transit Village presented such an opportunity.

## What Happened

When BART announced plans in June 1991 to construct a multi-level parking facility adjacent to the Fruitvale BART station, the community's response was less than enthusiastic. As it was, the area around the station was increasingly distressed. The station's crime rate was the second highest in the entire BART system. At a public meeting organized by BART to present its proposal, community residents and business owners complained that the proposed new facility would worsen crime and blight, exacerbate existing air quality and traffic problems, and cut off pedestrian access from the station to the downtown business district.

The Unity Council led the opposition to BART's plans. When it became obvious that the project did not have the support of the Fruitvale community, BART withdrew its proposal and agreed to work with community leaders on an alternative plan for the area.

### Snapshot of the Fruitvale Community

**Location:** Southeast of downtown Oakland

**Population:** 53,000

**Racial and ethnic composition:**

- Latino – 52 percent
- Asian/Pacific Islanders – 23 percent
- African American – 16 percent
- White – 7 percent
- Native American – 2 percent
- Other – 1 percent

**Average Household Income:** \$36,266

Source: 1990 U.S. Census.

## The Participants

- The Unity Council
- National Transit Access Center, University of California at Berkeley
- Bay Area Rapid Transit District (BART)
- City of Oakland
- Metropolitan Transportation Commission (MPO for Bay Area)
- Federal Transit Administration
- U.S. Department of Housing & Urban Development
- U.S. Environmental Protection Agency

The vocal and sometimes contentious meetings between BART and community representatives that followed helped give birth to the idea for the Fruitvale Transit Village.

**Identifying Community Preferences.** In February 1992, the City of Oakland awarded the Unity Council \$185,000 in Community Development Block Grant (CDBG) funds to initiate a community planning process for revitalizing the area around the Fruitvale BART station. That year, the Unity Council held a series of workshops bringing together different stakeholder groups from around the community.

Impressed with the Unity Council's community involvement strategy and ongoing progress, the U.S. DOT awarded the agency a \$470,000 FTA planning grant for the Fruitvale Transit Village in April 1993. The Unity Council used the money to conduct a series of community workshops and carry out economic, traffic, and engineering studies about the immediate station area.

In May 1993, the Unity Council partnered with the University of California at Berkeley's National Transit Access Center (UC NTRAC) to sponsor a community design symposium at which architects translated ideas of participants into a plan for the station area. One of the main themes articulated by participants was the

need for revitalization of existing neighborhood businesses and a plan to better integrate businesses into transit station development. Some 60 people, including Oakland Mayor Elihu Harris and Oakland BART Director Margaret Pryor, attended the event. This was followed by a series of community planning meetings to further develop the plan.

As the scale of the Transit Village project continued to grow by leaps and bounds, the project's three central players decided to formalize their relationship. In 1994, the Unity Council, BART, and the City of Oakland signed a Memorandum of Understanding establishing the Fruitvale Policy Committee to guide further planning and development activities at the station. The Policy Committee was a very different approach to project development for BART and one of several ways that BART exhibited flexibility and innovation during the planning and design phase of the project. The Policy Committee members included two representatives from the Unity Council, one representative from BART, the Mayor of Oakland, and the city council member representing the Fruitvale district.

Meanwhile, the Unity Council continued to engage in intensive community planning efforts for the



The 9-acre BART parking lot will become the site of the Fruitvale Transit Village.

## Project Chronology

### 1991

BART announces plans to build a multi-level parking facility at the Fruitvale rapid transit station. The Fruitvale community opposes the project.

### February 1992

The Unity Council receives \$185,000 in Community Development Block Grant funds to develop an alternative plan for the station.

### April 1993

The Unity Council is awarded a \$470,000 Federal Transit Administration (FTA) planning grant.

### May 1993

The National Transit Access Center at UC Berkeley and the Unity Council hold a community design symposium.

### July 1994

The Unity Council, BART, and City of Oakland sign a Memorandum of Understanding to form the Fruitvale Policy Committee.

### Spring/Summer 1995

The Unity Council holds a series of community site planning meetings.

### 1996

The City of Oakland passes a zoning ordinance capping parking space construction in the Transit Village area.

### 1997

The Unity Council creates the Fruitvale Development Corporation (FDC).

### 1998

The Unity Council gains control of the Village site through a land swap with BART.

### September 1999

BART receives \$7.3 million from the FTA to build replacement parking near the Fruitvale station.

### September 1999

Groundbreaking for construction of the Fruitvale Transit Village project takes place.

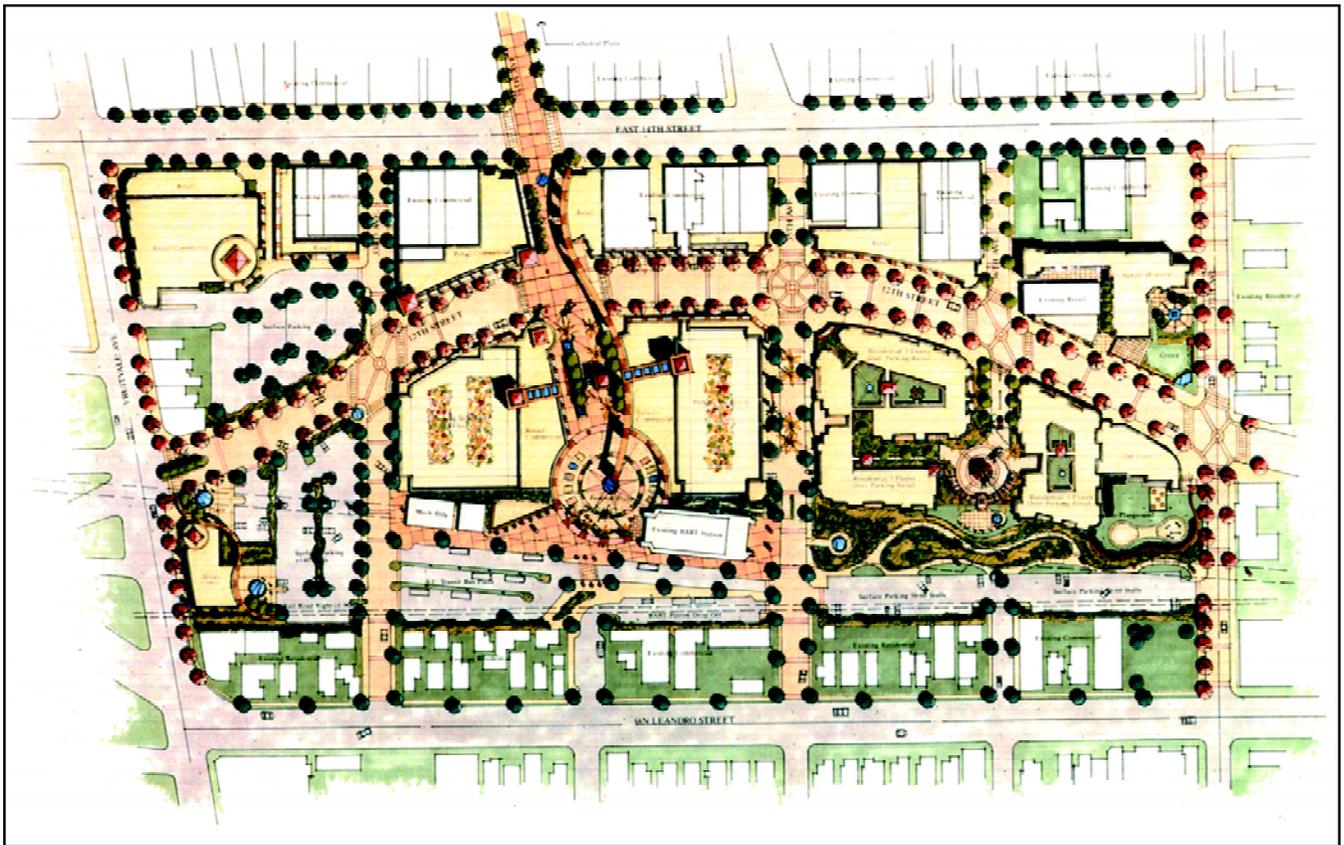
Fruitvale BART station area. In the spring and summer of 1995, the Council organized a series of community site planning workshops to help stakeholders reach a consensus on a conceptual site plan. At the first workshop, participants were asked to identify both positive and negative qualities of the Fruitvale community and to indicate their development preferences for the Transit Village. Participants identified crime, lack of retail businesses and community services, the area's negative image, and the lack of connection between the BART station and the community as issues of concern. Positive qualities cited included the area's diversity and strong tradition of community involvement. This workshop attracted about 30 people.

Participants at the second workshop were asked to develop more specific goals for the Transit Village.

Some of the goals identified included job creation, improved public safety near the BART station, increased availability of retail goods and services in the community, provision of high-quality affordable housing, and better local air quality. This workshop, attended by nearly 50 individuals, also featured a walking tour of the site.

At the third and final workshop, participants were asked to provide feedback on two alternative land-use plans prepared by the project design team. Once consensus had been reached on a site plan, the Unity Council initiated the technical phase of the project, conducting a final traffic study and financial feasibility studies.

By this time, the project components of the Fruitvale Transit Village were more or less settled. The Village would be located on the existing BART parking lot, a nine-acre site adjacent to the station. The centerpiece



Architects translated the ideas from community workshops into a plan for the station area.

of the project would be an elegant, tree-lined pedestrian plaza connecting the BART station entrance with the 12<sup>th</sup> Street business district one block away. The plaza would be lined with restaurants and shops and serve as a venue for neighborhood festivals and concerts. The surrounding area would include a mixture of retail development, housing, and social service agencies, all easily accessible by foot from the BART station.

**Overcoming Barriers.** In 1996, the Unity Council established a nonprofit subsidiary corporation called the Fruitvale Development Corporation (FDC) to serve as the developer for the Transit Village and manage contracts. Normally, BART uses a competitive bidding process to identify developers for projects on BART properties. However, BART policy allows the agency to

award sole-source development rights if such an arrangement is deemed to be in the best interests of the District. Given the Unity Council's stature in the Fruitvale community, its success in raising funds for the project, and BART's participation in the Fruitvale Policy Committee, the BART Board of Directors acted positively on a staff recommendation to award the Unity Council an exclusive negotiating agreement for the project.

By the mid-1990s, considerable progress had been made on the planning and design of the Transit Village, yet the project still faced a number of significant hurdles. Chief among these was the issue of "land assembly," that is, the need to assemble all parcels of land within the development site under single ownership. BART still owned much of the development



Transit Village streetscapes are designed to maximize pedestrian comfort, safety, and access to local businesses.

site and, due to a long-standing policy requiring the agency to retain ownership of land around transit stations for effective long-term planning, it could not easily part with the property. The challenge for the Unity Council was to persuade BART to make an exception to this policy and accept a fair market price for the property.

Here once again, BART exhibited considerable flexibility. The land assembly problem was addressed in 1998 through a complicated “land swap” orchestrated by the Fruitvale Policy Committee, which awarded the FDC a 96-year lease on the property. In return, BART received a parcel behind the transit station owned by the Unity Council and several nearby vacant parcels owned by the City of Oakland, enabling BART to maintain the existing value of its land holdings in the area. The land swap gave the FDC and the Unity Council proprietary rights to the entire development site without reducing the value of BART’s land assets near the transit station.



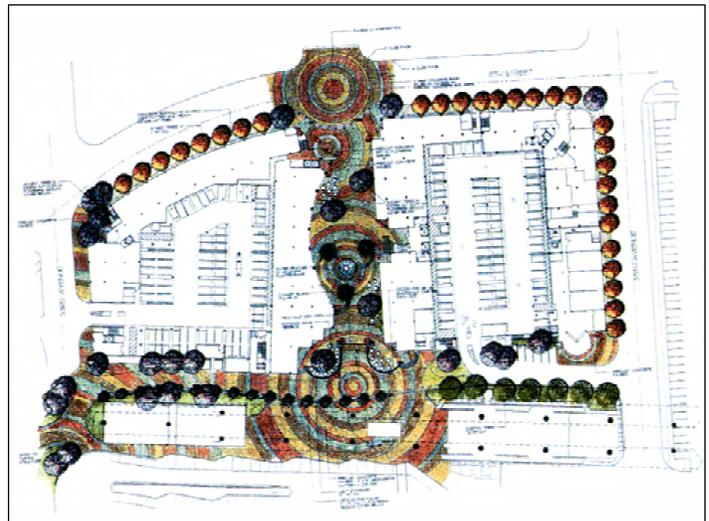
The Transit Village plaza will serve as a venue for neighborhood festivals and concerts.

A second hurdle was posed by the issue of BART parking capacity at the station. BART policy required that every parking spot removed for a project be replaced elsewhere. According to Unity Council Chief Executive Officer Arabella Martinez, “the parking was a critical issue.” Ultimately, the Unity Council helped negotiate an agreement allowing BART to construct a parking garage on property owned by Union Pacific Railroad west of the station, replacing about 500 lost spaces. In addition, the Unity Council helped BART secure a \$7.3 million grant from the FTA to construct the new facility.

Finally, in order to maintain the pedestrian-oriented character of the Transit Village site and to support community preferences for less traffic congestion and better air quality, the Unity Council petitioned the City of Oakland for a zoning ordinance that would ban construction of any additional parking spaces within the area around the Transit Village. The City passed the ordinance in 1996. In addition, the City agreed to abandon half of the East 12th Street right-of-way along the southwest border of the Transit Village and narrow the street to one lane.

During the next several years, the Unity Council and its partners were able to secure two more significant federal grants to financially anchor the project. In 1999, BART received \$780,000 from the FTA in flexible funds transferred from the FHWA to construct the pedestrian plaza portion of the Transit Village. BART was also awarded a \$2.3 million grant through the FTA's *Livable Communities Initiative*, which uses sustainable design concepts such as transit-oriented development to strengthen linkages between transportation services and communities. This grant provided funding for construction of the project's child care center, which will be developed by the Unity Council.

FDC architects finished the comprehensive plan for the Fruitvale Transit Village in 1999, and groundbreaking for the project took place later that year. To date, FDC has secured over \$82 million of



The plan for the station area incorporates the community's desire for a better connection between the community and the transit station.

public and private financing for the \$100 million venture.

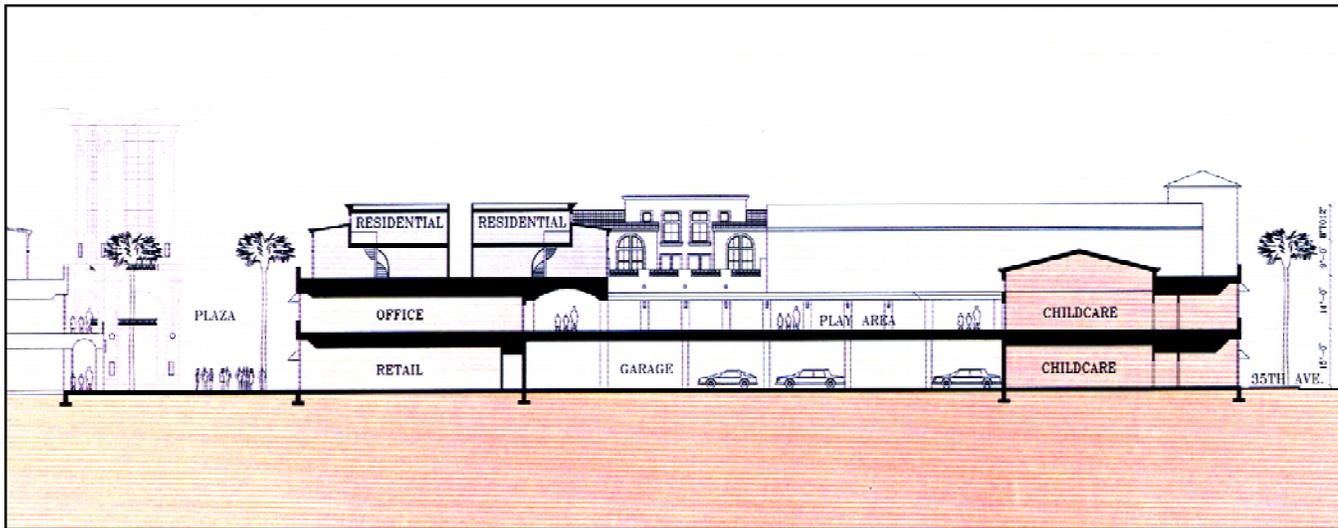
## Effective Environmental Justice Practices

The Fruitvale Transit Village represents an innovative strategy for using public transit to stimulate community development and achieve environmental improvements in a low-income, minority neighborhood. The project illustrates a number of effective practices for incorporating environmental justice principles into project planning and design:

**Effective Partnerships.** All major development projects face certain legal, regulatory, and financial hurdles. However, such obstacles tend to be more pronounced in built up urban areas, particularly in less prosperous inner-city neighborhoods. Difficulties with land assembly, potential for environmental contamination, and negative perceptions of such areas on the part of private investors are just some of the obstacles that development projects in lower-income central city neighborhoods may face. The Unity Council's success in negotiating the Fruitvale Transit

### Components of the Fruitvale Transit Village

- 45,000 ft<sup>2</sup> Retail/Restaurant Use
- 54,000 ft<sup>2</sup> Nonprofit Health-Care Clinic
- 55,000 ft<sup>2</sup> Child Care Facility
- 15,000 ft<sup>2</sup> Library
- 45,000 ft<sup>2</sup> Executive Offices
- 68 Units of HUD Housing
- 220 Units of Mixed-Income Housing
- 2 Parking Garages for 1,500 Cars



The Transit Village will feature a mix of uses – including child care and other community services, retail, and housing – within easy walking distance of the BART station.

Village through a formidable series of hurdles is due, in large part, to the effective partnership that it entered into with BART and the City of Oakland, institutionalized with the establishment of the Fruitvale Policy Committee in 1994. Importantly, both BART and the City of Oakland stood to gain from their participation in the project. The City of Oakland anticipated rising property tax revenues and other benefits associated with new investment activity in a formerly distressed area, such as job creation and reduction of crime. BART expected the new development would add from 300 to 600 new daily riders at its Fruitvale station.

**Flexibility and Innovation by Project Partners.**

Project partners acted in creative and sometimes unorthodox ways to overcome key barriers. BART entered into an exclusive negotiating agreement with the Unity Council, agreed to a land swap and relocation of its parking facilities at the Fruitvale station, and worked collaboratively *with* a community on a project initiated *by* the community. The City of Oakland capped parking in the Transit Village and relinquished a portion of its right-of-way on East 12<sup>th</sup> Street. The Unity Council provided the vision for the project, demonstrated effective leadership, and helped to orchestrate the necessary public support.

**Use of Creative Financing.** The Unity Council and its partners tapped diverse sources of public and private funds. For example, a housing complex for seniors is being funded through a combination of grants, loans, and land and equity capital from seven different entities, including private banks, the City of Oakland, a federal housing program, and the Unity Council. Project partners worked effectively to overcome constraints on the use of certain funds. For instance, since the Unity Council was not an eligible recipient of FTA grant funds for construction of the project’s child care center, BART agreed to accept the funds and allocate them to the Unity Council.

**Effective Public Involvement.** It is noteworthy that the Fruitvale Transit Village began as a proposal for nothing more than a simple parking facility, an idea opposed by the community. Without the strong and sustained public involvement effort that followed BART’s proposal, that would have been the end of the story. The Fruitvale Transit Village is an unusual development project in the sense that a community-based organization – the Unity Council – eventually served as the lead agency and developer for the project. The planning process led by the Unity

Council featured creative public involvement strategies such as community site planning meetings, workshops, and a community design symposium. This process helped to articulate a broad set of concerns focused around traffic congestion, air pollution, and the need for neighborhood revitalization. Once such concerns were effectively incorporated into the planning process, the project moved forward with enthusiastic community support.

**Use of Transportation Assets as a Community Building Tool.** The Fruitvale Transit Village is based on the proposition that public transit facilities can be used to stimulate economic development and promote environmental improvement in a low-income, urban community. Transit-oriented development, a planning concept that has been used successfully in various suburban locations, is largely untested in the inner city. Since central city neighborhoods are often better served by mass transit than suburban areas, the Fruitvale Transit Village may hold valuable lessons about the potential for using mass transit as a tool for the revitalization of low- and moderate-income inner-city communities.

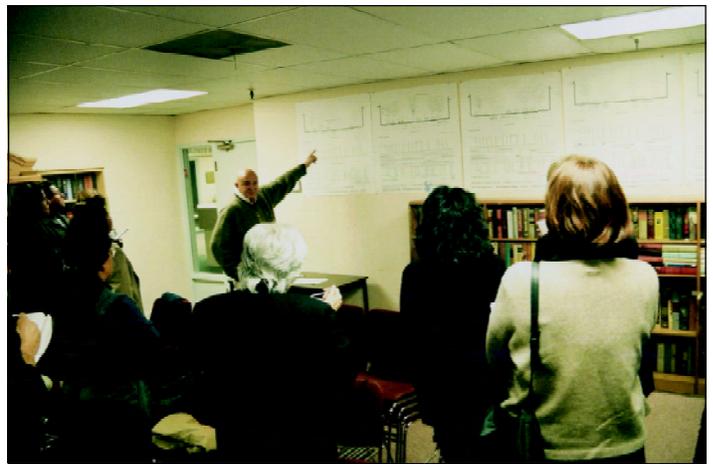
## Challenges Ahead

The planning and design phase of the Fruitvale Transit Village featured strong community participation, effective leadership by the Unity Council, and a willingness on the part of BART authorities to participate in a community-based planning process. As the project moves into the construction phase and beyond, a number of key challenges lie ahead:

- The concept of the “transit village” should serve as a guiding principle for future planning and development within the project area. The investment of substantial amounts of public and private funds in the immediate vicinity of the Fruitvale BART station will no doubt spark interest in the area on the part of private developers, many of whom will have no

particular interest in or commitment to environmental justice, transit-oriented development, or other project goals. Unless the City of Oakland continues to work closely with BART and Fruitvale community leaders to manage future development in the area in accordance with the transit village concept and the community plan for the area, the original focus of the project may be lost.

- The Fruitvale Transit Village could become the victim of its own success if redevelopment activity drives up property values and property taxes in the surrounding area to the point that existing residents and businesses are forced out of the community. City officials and community leaders should be on the lookout for signs of gentrification and be prepared to work together on a plan to minimize displacement in the event such steps become necessary. Possible actions include the capping of property tax increases for long-term residents and businesses in the area.
- The Fruitvale Transit Village could become a model for additional transit-oriented development projects serving low-income, minority communities located along the BART system. Whether or not this occurs depends to a large



The planning process for the Fruitvale Transit Village included creative public involvement strategies such as community site planning meetings, workshops, and a design symposium.

extent on the commitment of BART and Bay Area city officials to pursue such opportunities and the presence of committed and effective community-based organizations like the Unity Council in neighborhoods where such projects are viable and appropriate.

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*“The collaboration between the Unity Council, BART, and the City of Oakland was the key to the success of this project.”*

— Patricia Hirota Cohen  
Senior Real Estate Officer, BART

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## Lessons Learned

- Community-based organizations are typically well positioned to identify community preferences, needs, and concerns. They are often better equipped than government agencies to determine whether or not a project is appropriate for a given community and how well it is likely to be received. The idea for the Fruitvale Transit Village originated within the Fruitvale community, following a proposal by BART to construct a parking garage at the Fruitvale BART station. This proposal generated little community support. To BART’s credit, it changed course quickly once it recognized the community’s desire for a different type of project developed through a more inclusive planning process.
- Partnerships can be an effective tool for overcoming barriers posed by the expense and complexity of certain projects. The Fruitvale Transit Village survived various legal, financial, and regulatory challenges in large part because of the leadership of the Unity Council and the willingness of key players like BART and the City of Oakland to actively participate in the project.
- Public transit facilities are valuable assets for certain low-income, minority communities in urban locations. Such facilities already play an important role in providing inner-city residents with access to jobs, shopping, and other key destinations. To the extent that projects like the Fruitvale Transit Village prove successful, transit facilities may also be used increasingly as anchors for neighborhood revitalization.

## Benefits from Environmental Justice in Decision Making

### For the Neighborhood:

- Neighborhood businesses will benefit from improved pedestrian access between the BART station and the East 12<sup>th</sup> Street business district, encouraging more pedestrian traffic.
- Neighborhood residents and businesses will experience less traffic and better air quality as a result of planning efforts emphasizing alternatives to automobile use.
- New investment activity around the transit station will provide jobs, increase property values, improve the appearance of the area, and, ideally, transform the commercial core of Fruitvale into a convenient and healthy place in which to live, work, and shop.

### For the Agencies:

- With a strategy in place to revitalize an area of the city experiencing economic hardship, the City of Oakland is likely to benefit from new investment activity, job growth, rising property values, and increased property tax revenues.
- New development around the Fruitvale BART station will lead to an increase in the number of transit users passing through the station each day, boosting BART’s ridership.
- Both BART and the City of Oakland have learned valuable lessons about the planning and design of transit-oriented development projects, knowledge that can potentially be applied at other transit stations, both in Oakland and throughout the BART system.

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*“Community input equals community support.  
Without community support we don’t  
have a project.”*

— Gary Penman  
Project Architect, Fruitvale Transit Village

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