Ownership of Community: Placemaking and the Importance of Non-Residential Asset Retention in Gentrifying Neighborhoods

Executive Summary

Over the past two decades the City of Seattle and the Greater Seattle Metropolitan area have experienced high growth rates (Balk, 2021). In conjunction with this, the region has devoted increasingly large sums of money and effort into the development and construction of a comprehensive mass transit system (Lindbolm, 2016). Together, these have led to increased property values throughout the region and the threat of population displacement (Ramiller, 2021). Though the Cities of Seattle and Tacoma, King and Pierce Counties, and Washington State have all taken action to address the issues of homelessness and population displacement, non-residential asset displacement — businesses and culturally relevant community centers — have not been adequately considered and are still being pressured by gentrifying forces (Alvarez et.al., 2021).

The Cities of Seattle and Tacoma manage a combined total of 21,899 municipally-owned low-income housing units dedicated for renters with incomes at or below 80% area median income (AMI) (Tacoma Housing Authority, 2022; Seattle Housing Authority, 2022). As Sound Transit, King County Metro Transit, and Pierce Transit expand fixed-route transit (FRT) infrastructure, market pressures on neighborhoods within walking-distance of transit stations are expected to cause continued real-estate price increases (Preis et.al., 2021). Investments in housing without similar assurances made to non-residential assets is leading to internally displaced population, or "alienation from place" for such low-income and marginalized populations (Tuttle, 2021).

Compounding the market pressures placed on these neighborhoods through changing economic and infrastructure dynamics, historic and systemic inequalities have weakened the resilience of at-risk communities (Alvarez et.al. 2021) . Lack of access to adequate financial resources reduces economic access for marginalized communities and limits financial flexibility (Hergerty, 2020). Historic mistreatment and usurious practices by financial institutions has harmed the financial wellbeing and limited financial literacy while damaging institutional trust from these communities (Bray, 2012; Ferguson, 2012; Miller, 2022). Poor equality of institutional knowledge and access to technical assistance in business management and bureaucratic navigation has created disparate outcomes for businesses owned by members of different socioeconomic backgrounds (Vázquez, 2022).

This policy brief summarizes the underlying causes of non-residential asset displacement, proposes policies and public programs to address theses causes, and provides implementation plans, cot analyses, and impact projections.

The policies proposed will directly invest in physical infrastructure for low-income office and retail space in order to reduce costs to low-income businesses, provide funding and insurance for loans for small businesses in distressed communities, and provide funding for training and technical assistance for minority and low-income entrepreneurs. These direct investments are all well within the budget capabilities of Washington State given the recent and predicted continued budget surplus (Murphy and Gomez, 2022).

Top-Line Takeaways

- $39.8 million for Community Business Incubator Fund
  - Improve access to business training, technical assistance, and financial literacy
- $2 - $6.8 billion for investment in office and retail infrastructure for low-income and marginalized entrepreneurs
- Up to $4.2 billion funding for interest-free and fully insured business loans to businesses in distressed communities
  - Equity growth and financial stability for distressed businesses
  - Improved access to safe financial products
  - Harm reduction practices to improve financial literacy and institutional trust

Introduction

Transit oriented development (TOD) related population displacement is one of the most prevalent problems in modern American cities. A shift in urban planning paradigms away from suburbanization and toward New Urbanism and TOD has radically changed market forces at play in urban cores (Bullard, 2007; Pendras & Deirwechter, 2020; Smith, 1996; Hyra, 2015). This, and shifts in housing tastes and preferences of the middle-class, has resulted in increased market pressures on urban centers and historically marginalized communities. In many urban areas in the United States, this has led to dramatic demographic shifts and increased populations experiencing homelessness and displacement.

Along with residential-led community displacement, community asset displacement has torn at the fabric of social capital in these neighborhoods. Displacement of community assets, such as minority owned and serving stores, restaurants, schools, houses of worship, and industry, can both instigate and accelerate whole community displacement by making neighborhoods inhospitable spaces for these communities (Raphael & Stoll, 2000; Chappel & Loukaitou-Sides, 2019). This concern has spurred planners to focus on equity planning to augment or support planning of physical infrastructure. Equity planning aims to identify how an established community functions, its needs, and threats. Planners then establish programs and policies in local governments to support those community assets. Many of these needs may be met by simply providing financial support to minority owned and serving stores which otherwise may face eviction, or by providing dedicated spaces in said neighborhoods much the way grant funded housing developments function. In other cases it may be a matter of altering infrastructure plans to better facilitate growth of certain industries, or reduce crowding-out effects.

While individuals facing economic or market driven displacement who receive housing support are less likely to slip into homelessness, communities that experience asset loss from displacement are more likely to have increased homelessness and take a significantly longer time to recover lost wealth, if they ever do (Bross, 2015, Chappel & Loukaitou-Sides, 2019). Loss of these assets often precipitates increased displacement and can create more opportunities for poverty. Businesses losing a lease or being unable to keep up with increased land value-assessed taxes can lead to a permanent loss of income for the owners, their employees, and the community (Curran, 2007; Zandiatashbar, Hamidi, Foster, Park, 2019). For many lower-income communities, business ownership is a primary method of ending cycles of poverty and gaining wealth through equity. Displacement is an existential threat to this process.

This policy brief examines three policy approaches to reducing the impact of job and non-residential asset displacement in neighborhoods experiencing TOD. The approaches include Low-Income Office and Retail Space (LIORS), Community Business Incubator Fund, and a Washington State Community Development Financial Institution Small Business Loan Program. Each policy intends to address a different aspect of the concern, and though may be adopted separately, are intended to create a coherent community support system.

The key audiences for these policies include municipal and regional transit agencies, the Washington State Legislature, county governments, and regional city governments. Though federal law may be pertinent to applicability, adoption and implementation of these policies is the purview of local agencies. In the instance of addressing concerns in the Seattle/Tacoma metro area, the key stakeholders would be the Washington State Legislature, the Puget Sound Regional Council (PSRC), Sound Transit (ST), the Cities of Seattle, Tacoma, Everett, and Bellevue, and King, Pierce, and Snohomish Counties.

Background

Homelessness by way of displacement and community loss has seen a significant uptick in prevalence, especially in neighborhoods adjacent to new transit infrastructure (Hyra, 2015; Pendras, 2022; Tuttle, 2022). Many of the communities that have inhabited these neighborhoods are lower-income and have often been historically marginalized and excluded from planning processes. As climate change and our collective greenhouse gas (GHG) footprint becomes a more compelling political issue, municipalities have turned to TOD as a policy and planning paradigm to curb such impacts. Many urban areas, such as Seattle, Portland, Minneapolis, and Phoenix, have in recent years made massive investments in fixed-route/rail transit infrastructure (Thompson, 2021; Rose, 2011; Keith, 2022). The issue of community displacement is often much more pressing in these areas as a result. The 2015-2020 One Night Count has shows significant increases in homelessness year over year (Walters, 2019). Each year large numbers of the respondents cite displacement for causes of their housing insecurity.

The most recently passed Sound Transit Link Light Rail expansion measure, Proposition 3 in Seattle, included $20 million in funding for low-income housing (Lindbolm, 2016). In conjunction with efforts by the City of Seattle, Seattle Housing Authority, King County Housing Authority, and Tacoma Housing Authority to construct low-income housing in neighborhoods with new transit nodes, this effort by Sound Transit to incorporate low-income housing into initial transit designs may help to offset or even eliminate population displacement.

Generally, population displacement in the United States is addressed by utility of the many federally funded housing development and administration programs provided through the Department of Housing and Urban Development (HUD) (Jackson, 1985; Frug, 2008). Three of the more notable and recognized programs are Section 8, LIHTC, and HOPE VI. Each program offers different options for utility and signifies a specific era of policy-making.

Section 8: Origin of Public Housing

- Established by U.S. Housing Act of 1937
- Funds construction of public housing
- Used to create the original public housing "projects"
- Section 8 Vouchers provided individuals to pay a portion of rent through private housing

The most commonly recognizable approach is Section 8, which was originally established as part of the New Deal through the U.S. Housing Act of 1937 (McDonnell, 1957). This program created great swaths of large housing "projects" which provided higher quality housing than had existed, but centralized poverty and have been criticized for perpetuating racist urban design systems (Jacobs, 1961; Jackson, 1985; Venkatesh, 2008).

Acknowledging the failures of the Section 8 housing programs, and as part of the Reagan era supply-side economic ethos, Congress created the LIHTC program as part of the Tax Reform Act of 1986 (H.R. 3838, 1986; Implications of H.R. 3838, the Tax Reform Act, 1986). This bracketed tax credit reduces the tax burden on housing developers who set aside a portion of housing units within qualifying projects for 15-30 years. These tax credits are calculated and disbursed upon

LIHTC: Supply-Side Housing

- Established by Tax Reform Act of 1986
- Reduces tax burden of private developers
- In exchange for setting aside a percentage of units in a development, developers receive 4-6% tax reduction
- Tax credit calculated and delivered in up-front costs
- Tax credit expires at 15 or 30 year point
- Useful for integrated, mixed-income housing

approval of the project's LIHTC application to HUD (H.R.3838, Sec 232). Because these tax credits are offered to private developers, they are intended to reduce the cost of development on businesses and non-profit housing organizations. As an affect of, these housing developments are often mixed-income (Deng, 2004; Frug, 2008; National Low Income Housing Coalition, 2016).

In 1993, Congress approved the formal creation and funding of HOPE VI grants to be administrated by HUD in the IA-HUD-VA Appropriations Act of 1993 (HR 5679, Title 2). HOPE VI is, in many ways, a re-imagination of Section 8 housing projects. These community block grants are offered primarily to local housing authorities to redevelop old and decaying Section 8 complexes, or to construct new ones. Unlike Section 8, though, HOPE VI centered new-urbanist design paradigms, walkable spaces, and integrated housing. Generally this manifested in mixed-density neighborhood redesigns allowing private developers to utilize properties once occupied by poor-quality public housing, alongside newer, medium or high density low-income housing apartments and single-family homes in row-house style (SHA, 2013; Deng, 2004; Dahlem, 2010).

While these programs offer a variety of possible solutions to population displacement, the impact of these developments on jobs centers, low-income businesses, and industry is inadequately addressed, considering the above referenced research (Pendras, 2020). Often when neighborhoods surrounding a new FRT station are redeveloped, especially those with high concentrations of low-income residents and housing, municipal governments access these programs to provide solutions to alleviate population displacement. However, no formal programs to provide such support for other assets currently exists, and often these assets are displaced.

HOPE VI: Public Housing and Urban Renewal

- Established in the IA-VA-HUD Appropriations Act of 1993
- Provides HUD administrated community block grants (CBGs) for development of new public housing
- Utilized also to redevelop Section 8 housing "projects"
- Grant process emphasizes "livable", new-urbanist communities with amenities and green-space
- Useful for integrated, mixed-income housing

Demographic overview

The City of Seattle is one of the wealthier cities in the country. Household median income within the City of Seattle in 2019 was approximately $94,000, while national median income was approximately $62,000

(U.S. Census Bureau, 2020). Incomes in the Seattle-Tacoma-Bellevue-Everett metropolitan area are likewise higher than the national average, but range widely. While in 2020 Seattle and Bellevue had household median incomes of $94,000 and $120,000 respectively, Everett and Tacoma's household median incomes were $60,000 and $62,000 (U.S. Census Bureau, 2020). See Table 1, Midsized Cities Demographics, in Appendix 1: Select City Demographics.

> **Gentrification**
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> Gentrification is the phenomenon wherein a demographic or population change alters the real or perceived character of a neighborhood (Frug, 2008). This usually manifests as either middle or upper income earners moving in to a lower income neighborhood.
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> This is often confused or conflated with "displacement", though they are not the same.
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> **Displacement**
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> Displacement often occurs simultaneously with gentrification (Frug, 2008). However, "displacement" refers to the complete removal of a population from a neighborhood. Gentrification without displacement may occur, indicating two demographic populations residing in one neighborhood.

The City of Seattle is less ethnically and racially diverse than many urban areas, but more than the national population country-wide. Whereas in 2020 nationally, 76.3% of the population identified as "White alone", within the city limits, 67.3% of the population identified as "White alone" (U.S. Census Bureau, 2020). Seattle also has a higher than average Asian population with 15.4% identifying as "Asian alone" compared to a national average of 5.9%. Correspondingly, Seattle has a lower percentage of Black or African American residents with only 7.3% compared to the national average of 13.4%. Likewise, Seattle has a smaller Hispanic or Latino population with only 6.7% compared to the national average of 18.5%.

This places Seattle within the context of the nation at-large. However, it is commonly understood, correctly or not, that urban areas tend to be more ethnically and racially diverse. Compared to other urban areas of similar sizes, Seattle has a higher proportion of people identifying "White". Two of these cities, Portland and San Francisco, have highly developed "metro" FRT systems, while the other two are building light rail/metro systems. This makes each a decent comparison city for Seattle.

Additionally, Seattle's median household income is far higher than most other represented cities, with Kansas City representing the lowest at $54,194 and San Francisco the highest at $112,449. This is likely owed to Seattle and San Francisco both being considered tech industry centers, with extremely high pay jobs luring new, well educated residents.

These data matter when considering the impact of policy. On the surface, gentrification and displacement are both the product of income shifts and price fluctuations within defined areas. As a result of various policies that have enshrined systemic racism in urban demographic patterns — redlining, highway construction, and the development of low-income housing "projects" — examining how these policies impact certain populations and in what cities is key. In the United States people of color, especially Black or African American and Latino populations, are generally lower income as a result of historic and systemic racism. Thus, recognizing both income and racial/ethnic geographies of cities can help contextualize and identify population patterns around resources and infrastructure, allowing us to understand where gentrification led displacement is possible or likely. Using this practice, we can map urban population patterns in the City of Seattle to create indexes identifying this problem.

Redlining

A lending practice utilized in the United States mortgage system from the formation of the Federal Housing Administration in 1934 through the late 1970's (Jackson, 1985). This scheme rated neighborhoods from "safe" to "hazardous" investments. As such, mortgage interest rates would increase or decrease depending on neighborhood rating. Many banks would not lend to purchases in "hazardous" rated neighborhoods. This led to divestment in lower-income neighborhoods.

In addition to neighborhood median income, racial makeup was taken into consideration in the rating process (Jackson, 1985; Morris, 2008). This led to predominately Black and Latino/Latinx neighborhoods being rated as "hazardous", severely harming said communities by constricting access to financial resources.

Mapping the problem

To assess this phenomenon in the City of Seattle, select neighborhoods have been identified. These are neighborhoods in which FRT infrastructure — Link Light Rail, Seattle Streetcar, or both — has been constructed within the past 15 years; the Seattle Streetcar first opened in South Lake Union in 2007, and Link Light Rail Line 1 opened in 2009. This includes:

1. Belltown
2. Capitol Hill
3. Central Business District (Downtown)
4. Central District - East and West
5. Columbia City
6. First Hill
7. Holly Park
8. The International District (The ID - Chinatown, Japantown, and Little Saigon)
9. Othello - Brighton
10. Pike Market
11. Pioneer Square
12. South Lake Union
13. University District
14. Yestler Terrace

Population and Demographics

These neighborhoods, seen displayed within Seattle in Image 1 aside, encompass a diverse representation of population centers. While North Seattle — all of the city north of the Ballard-Fremont-Montlake cut connecting Lake Washington and Lake Union with the Puget Sound — is heavily white and upper-middle class, South Seattle — neighborhoods south of Interstate 90 and east of Interstate 5 — and the Central District are more predominately Black and lower-income. Additionally, the International District houses a historically Asian immigrant population, while Capitol Hill and First Hill are home to a large LBGTQIA+ population (City of Seattle Department of Neighborhoods, 2019; U.S. Census 2010 and 2020).

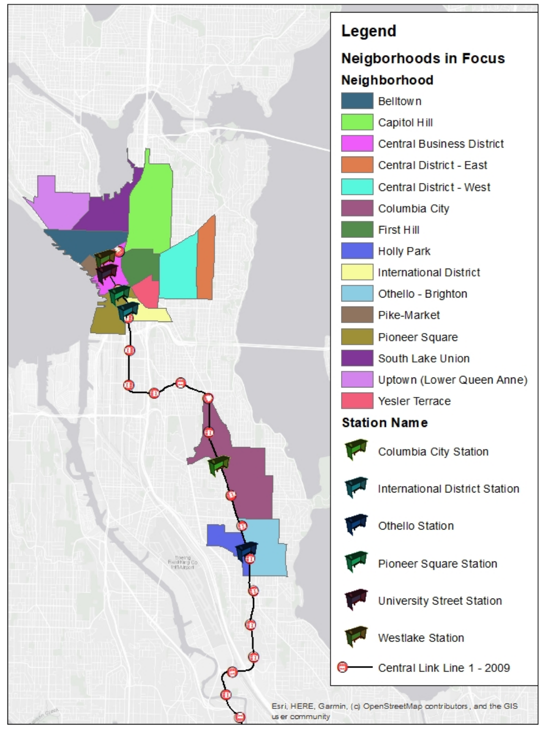

Image 1: Neighborhoods of interest within the City of Seattle, and the Central Link Light Rail Line 1 extension. Stations south of Capitol Hill opened 2009. Capitol Hill and UW Stadiums opened 2016. University District, Roosevelt, and Northgate opened 2021 (Sound Transit, 2022; City of Seattle GIS Program, 2022)

Many of these neighborhoods have also experienced some of the highest growth rates within the city. South Lake Union, Uptown (Lower Queen Anne), and Columbia City all saw growth rates of 30-60% over the past 10 years. Over that same period of time, the City at-large grew by over 20% (U.S. Census Bureau, 2020). Image 1 highlights the neighborhoods of interest to us within the city. Note the higher growth rates near link stations that opened in the past 15 years.

Images 2 and 3 below show the change in percentage of census tract populations in the City of Seattle identifying White and Asian over the past decade (United States Census Bureau, 2010; U.S. Census Bureau, 2020). Note that South Seattle's Othello, Holly Park, and Columbia City neighborhoods all indicate decreases in percentages of residents identifying as Asian, and increases identifying as White. This demographic shift indicates a changing population base.

Corresponding to this racial demographic shift was an increase in income (U.S. Census Bureau, 2010; U.S. Census Bureau, 2020). Though generally region-wide the Seattle metropolitan area has seen a rise in median incomes, this has been highly pronounced in several areas experiencing significant demographic changes, such as South Seattle. Note that while South Lake Union and the University District neighborhoods had the highest median income growth rates, Columbia City and Holly Park saw median income growth rates in the mid 20% to mid 70%.

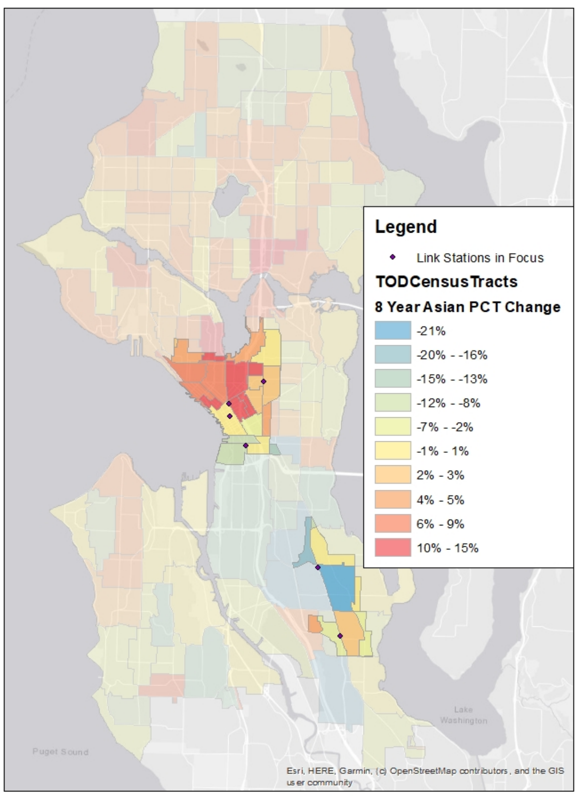

Image 2: Change in percentage of census tract residents identifying as Asian. Note that the South Seattle census tracts have negative percentage changes. Though still above average for Asian identifying residents, this indicates a demographic shift.

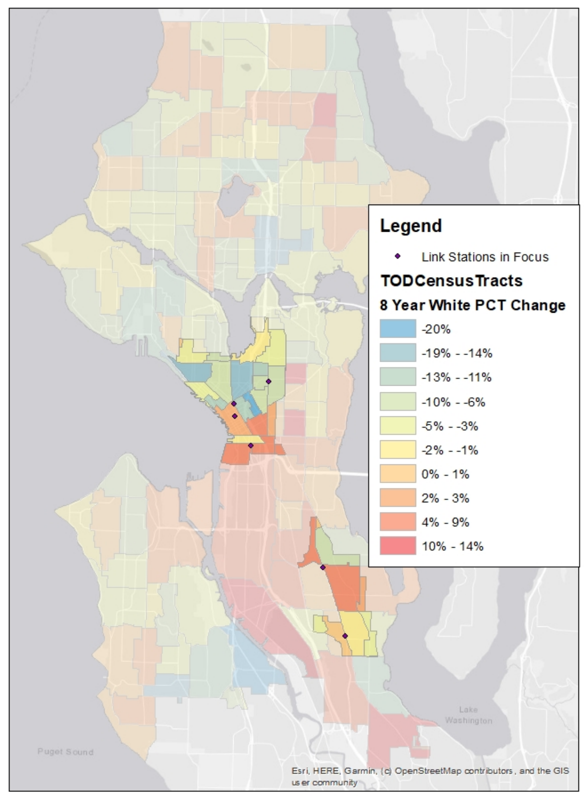

Image 3: Change in percentage of census tract residents identifying as White. Note a general city-wide increase, but significant increases in South Seattle near the Columbia City and Othello Light Rail stops. (U.S. Census, 2010, 2020)

This, in combination with the changing demographic patterns, does indicate pressure to gentrify. Neighborhoods which experience high median income growth rates through demographic shifts — ie: new residents with higher incomes, as opposed to higher incomes for existing residents — can see displacement of older, existing residents and their assets (Hyra, 2015). This has occurred simultaneously with a dramatic increase of evictions especially in lower-income neighborhoods, predominately Black and Latino/Latinx, as private landlords renovate or redevelop properties for higher income renters (Ramiller, 2021). In effort to limit the impact of these property value increases on low-income residents, housing authorities leverage the aforementioned federal HUD programs and tax schematics to increase the stock of low-income housing stock specifically (Seattle Housing Authority, 2013; Dahlem, 2010; Lindbolm, 2016). However, this practice is not applied to non-residential assets such as businesses or neighborhood centers, as they do not qualify for such federal dollars (Alvarez, 2021). This has the effect of pushing such assets out, while residents stay in place, often unable to relocate due to the intentional placement of low-income housing developments (Tuttle, 2022; Chapple & Loukaitau-Sidris, 2019).

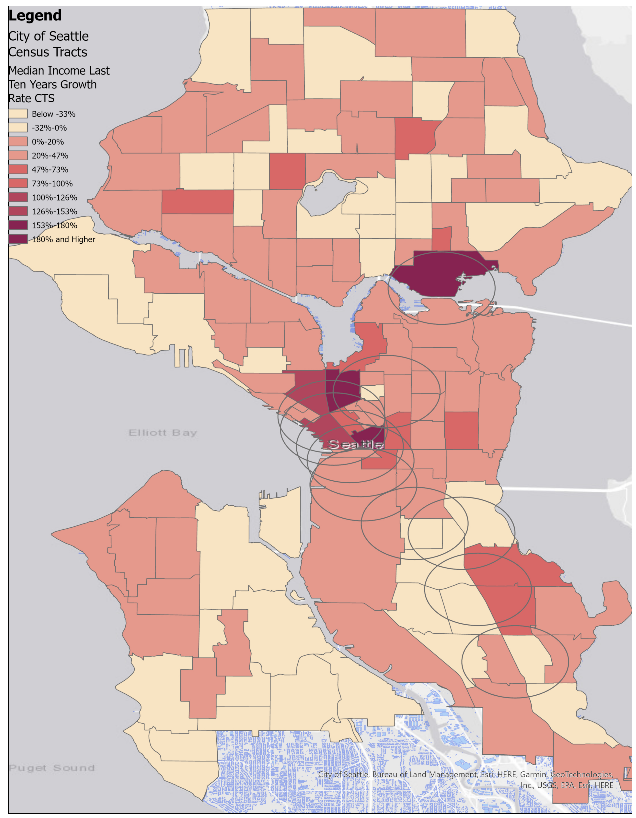

Image 4: Median income in the City of Seattle by census tract. Note Columbia City and Holly Park have increased median income by over 30% over the past 10 years. (U.S. Census, 2020)

Financial Access and Literacy

Compounding the concerns over equity raised above, many of these neighborhoods are also considered financial or banking deserts with access to financial resources (Hergerty, 2020). Urban areas which had been redlined experienced nearly a century of financial divestment and neglect. As a result, both public and private infrastructure of these neighborhoods is generally poorer quality, and residents lack access to banking services necessary for financial management and many economic activities required in modern society (Morris, 2022, Cover, et.al.; 2011). This has caused a double effect of weakened retail services, as well, as many such neighborhoods lack the financial resources to support businesses (Schuetz et.al., 2012).

In addition to lacking adequate financial and banking resources, what resources are available often extort or mistreat clients (Miller, 2022; Cover et.al., 2011; Bray, 2012). Lack of financial literacy has been cited as a leading concern within urban poverty (Morris, 2008). As communities get cut off from financial services and mistreated by what financial services are available, poor habits are formed and encouraged. Lack of exposure to or education in financial management has compounded these issues to create worsening situations, such as poor credit scores and burdensome debt.

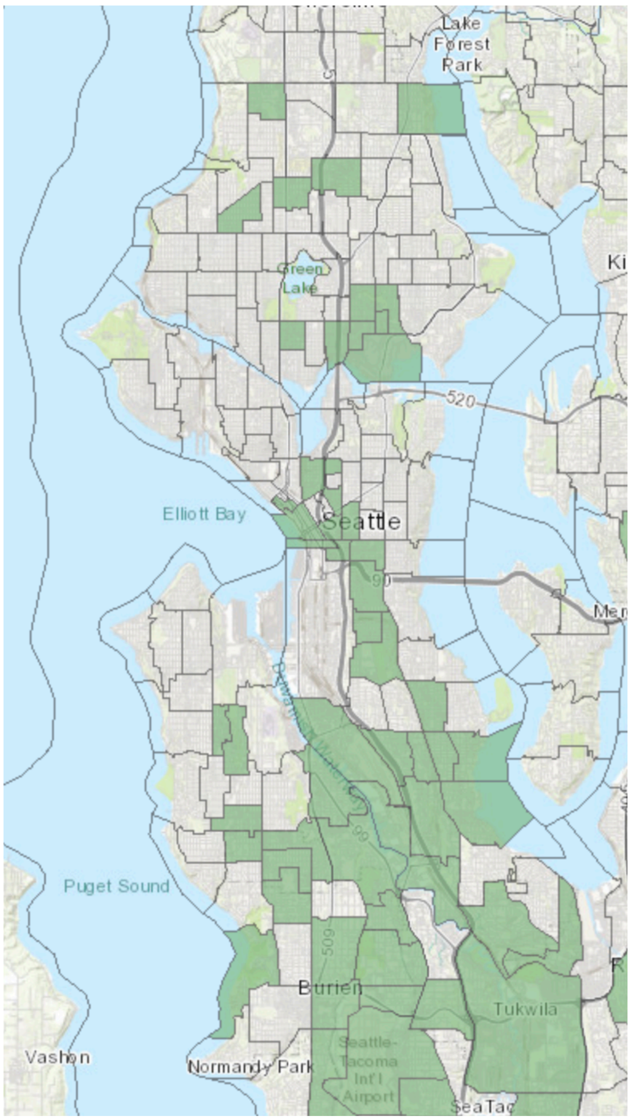

Image 5: CDFI designated zip codes. Note the overlap with several of the census tracts experiencing gentrification and displacement shown above. (CDFI Fund, 2022)

Banking and lending practices such as redlining have harmed both the overall wealth of Black and Latino/Latinx communities, as well as their trust in banking institutions (Morris, 2008). Partly as a result of this mistreatment and mistrust, Black and Latino/Latinx communities underutilize banking institutions available to them. Marginalized groups as such are less likely to hold savings or checking accounts, and therefore less likely to accumulate wealth through interest. Lack of access to checking and credit accounts limits community members economic activity, housing opportunities, and ability to develop financial literacy and credit.

This latter aspect has been noted by economists as causing poor credit and equity in said communities (Morris, 2008; Bray, 2012; Ferguson, 2012; Miller, 2022). While the poor utility this mistrust in financial institutions has bred is a contributing factor, continued mistreatment and lack of accessible resources compound the concern. Many areas with high percentages of low-income or minority populations lack banking resources, creating "banking deserts" as mentioned. Often, what financial institutions that are available continue offer higher interest rates to Black and Latino/Latinx customers (Ferguson, 2022). Even banks in wealthier neighborhoods have been cited for both offering higher interest rates to minority clients, especially those of Black and Latino/Latinx background, and failing to explain terms of use and appropriate financial management to new clients (Miller, 2022; Bray, 2012).

In addition to the constrained access to financial resources negatively impacting these assets, economists and business analyst have noted inequalities in business knowledge and ability to navigate local and federal bureaucracies (Alvarez et.al., 2021). Lower income businesses are more likely to lack legal representation or counsel which disadvantages them when managing licensing and incorporation processes (Alvarez et.al., 2021). Similarly, immigrant entrepreneurs often encounter language and knowledge barriers navigating municipal codes. Coaches at business incubators often note that immigrant entrepreneurs being unfamiliar with U.S. bureaucracies, and having difficulties "adjusting" (Vázquez, 2022).

Additionally, businesses owned by marginalized groups, especially low income and racial/ethnic minorities, are less likely to have equal access or knowledge of business planning, financial planning, accounting practices, and tax law (Alvarez et.al., 2021; Vázquez, 2022). Partly as a result of unequal access to educational opportunities and unequal quality of educational programs based on zip-code, members of historically marginalized racial groups in the United States often lack technical skills necessary for business management (Ravitch, 2013; Alvarez et.al., 2021; Vázquez, 2022). Many businesses in low-income communities fail not because they lack the funding, but because they lack the knowledge of what to do with funds they have (Vázquez, 2022).

Businesses and entrepreneurs from marginalized and distressed communities which received financial support and technical assistance had a 14% higher 18 month survival rate than national average for all businesses (Ventures, 2017). Over 60% of entrepreneurs who received such support exited poverty within a year, and created thousands of jobs, often within their communities (Ventures, 2017). Even in neighborhoods experiencing pressures of gentrification, businesses receiving such services were less likely to fail or have to relocate (Alvarez et.al., 2021).

Place Making, Neighborhood Identities, and Gentrification

Image 5: the Historic Chinatown Gate on King Street & 5th Ave S in Seattle is a placemaking device in the International District/Chinatown, Seattle. The neighborhood has a high concentration of East Asian focused businesses and immigrant population (Photo credit: Bradon Rothschild, 2017)

The premise of this thesis is that culturally, ethnically, and racially marginalized people, especially those who have experienced economic oppression/marginalization, need specific community-centric non-residential assets within a neighborhood for adequate community services. Marginalized communities in urban spaces seek common community settings. These neighborhoods create safe-spaces for marginalized identities (Hyra, 2015; Tuttle, 2022). Beyond the unique foods and services these businesses provide which cater to their specific community, the comfort these spaces provide foster opportunity for congregation and safety. This is why many cities have niche neighborhoods serving such communities, and not others.

The community nonprofit El Centro de la Raza (The Center for People of All Races) sits at the center of Beacon Hill Seattle, home to the largest Latino/Latinx community (City of Seattle Department of Neighborhoods, 2018). This agency offers community services to Spanish language speakers including social safety net system guidance, health care support, business finance support, and education opportunities (El Centro de la Raza, 2022; Maestas, 2022). El Centro de la Raza sits at the peak of Beacon Hill on top of the Beacon Hill Link Light Rail Station.

Image 6: Pike Place Market in Seattle exemplifies the urban design concept of "placemaking" by only allowing unique of "first of their kind" vendors to open stores within the neighborhood (Photo credit: Bradon Rothschild, 2018)

Additionally, El Centro is a gathering spot for the Latino/Latinx community in Seattle which sponsors several cultural events throughout the year (El Centro de la Raza, 2022). While the center sponsors cornerstone celebrations from many Latino/Latinx communities, it also offers spaces for artistic expression for these same marginalized communities. Partly as a result of this cultural hub and the Latino/Latinx businesses aided by the center's business support system, the Latino/Latinx community of Seattle has retained a strong foothold in the neighborhood, even as housing prices have increased and sections have been redeveloped (City of Seattle Department of Neighborhoods, 2018; Maestas, 2022).

While the cities of Seattle and Tacoma have adapted to the increased demand on housing in many of these areas by implementing dramatic investments in low-income housing developments, these developments do not include investments in non-residential assets (Seattle Housing Authority, 2013; Lindbolm, 2016). As a result, many low-income businesses have cited increased real-estate costs for either closing or relocating (Vasquez, 2022; Alvarez et. al., 2021).

While the demographic shift does not necessarily equate to full population displacement, noted changes in business ownership in some of the neighborhoods mentioned, clients served, and nature of businesses indicate gentrification and business displacement (Hyra, 2015; Tuttle, 2022). In the case that these neighborhoods do experience such phenomenon, the inclusion of low-income housing without access to such representative non-residential assets may negatively impact the social capital development some have suggested to be lynchpin to community stability (Hyra, 2015; Tuttle, 2022).

Additionally, such changing neighborhood dynamics may radically alter the identities of those neighborhoods. Several sociologists and urban planners have noted the concept of "place-making" as key to the process of cultivating social capital, as well. Jane Jacobs' seminal book *The Death and Life of Great American Cities* expounded upon the thriving social connectivity in the low-income Italian community of the North End Neighborhood in Boston, contrasting that with desolate projects based neighborhoods in New York (Jacobs, 1961). In these observations, Jacobs activity between the street and buildings as key to a healthy neighborhood, and that isolation of buildings from their outside cut neighbors off from social interaction. Other urban planners and sociologists have noted that businesses improve this street-level activity and place-making phenomenon, augmenting the link between communities and their assets (Lynch, 1960; Tuttle, 2022).

However, lack of representative businesses can create barriers to interaction (Tuttle, 2022). Businesses that do not serve culturally relevant goods or services to certain groups have an alienation effect on those groups. When two communities with different cultural identities and disparate economic means live side-by-side, often the more well-off community dominates the commercial space (Hyra, 2015; Tuttle, 2022). This amounts to "cultural displacement", and is characterized by the lower-income community expressing a "lack of community ownership" and "alienation from place" (Tuttle, 2022).

Theory of Change

In addressing social equity concerns, a theory of change in a guiding thesis explaining the underpinning problems causing the inequality, and the policy changes necessary to effect social change. For the case laid out above, three primary targets have been identified:

- Lack of affordable, or stabilization of affordability, of office and retail real estate in TOD or otherwise gentrifying spaces and ability to retain community ownership
- Inequality of access to business knowledge across demographic groups, and

- Poor, inadequate, of complete lack of access to quality financial services, and potentially harmful practices of services available.

We come to these conclusions by observation of current conditions in the City of Seattle and Puget Sound region, and an understanding of research performed in other metropolitan areas as outlined above. The following proposals aim to address these deficiencies in social welfare systems and market failures.

Policy Proposal

LIORS

Earlier we elaborated on the primary low-income housing programs funded by the United States Federal Government. These programs are Section 8, LIHTC, and HOPE VI. Together, they signify a range of approaches to provide and administrate supply of housing, and to directly support low-income individuals and families in securing and affording housing. Presently, these funds can only be leveraged for the development and maintenance of housing. Until and unless Congress amends their foundational legislation, they will continue to exclude other uses.

The Low-Income Office and Retail Space (LIORS) program mimics aspects of these three programs and focus on non-residential assets, primarily office and retail space, for the use of businesses owned and operated by low-income individuals and families. Direct government expenditures are utilized to construct and maintain retail and office spaces for the use of low-income city residents. Priority are given to residents from within the neighborhood to support greater local representation. Inclusion of retail and office and retail space in low-income housing developments is aimed at supporting and incubating culturally representative businesses, as well as job and equity options for targeted communities.

> **LIORS**
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> - Modeled off Section 8, LIHTC, and HOPE VI
> - Locally administrated and regionally coordinated
> - Direct municipal ownership of office and retail space
> - Inclusive planning encourages representative businesses
> - Shared grant funding with state and municipal agencies
> - Can - should - be embedded with following policies
> - Directly addresses lack of affordable supply
> - 70/30 state/local support mixture

As LIORS is based on already implemented programs for housing, the legal and bureaucratic formula is easily replicated. LIORS will operate two programs at the state level: community block grants, and tax credits. The Washington State Legislature will establish and fund in state biennial budgets a HOPE VI style grant process. These grants will be disbursed to local housing authorities and non-profit housing agencies to cover capital expenses of retail and office space development within 0.5 miles of fixed-route transit stations — light rail, metro, streetcar, bus rapid transit, and commuter rail. State LIORS funding will account for 70% of total capital costs, while local agencies are expected to cover the remaining 30%. This schematic is based on the funding with levy-equalization implemented by the Washington State Office of the Superintended of Public Education (Office of Financial Management, 2021, Office of Financial Management, 2012). It will be repeated in the following policies.

Community Business Incubator Fund

One of the noteworthy success stories in Seattle is that of Beacon Hill's El Centro de la Raza. As a community hub, this organization has constructed low income housing atop the Beacon Hill Light Rail Station, using LIHTC funding. In addition to this housing, the organization operates a business opportunity center which coaches community members in development of a variety of skills (Maestas, 2022). These skills include but are not limited to financial literacy, accounting, understanding bureaucracy, and business planning.

Business Incubators

- Community-based
- Wrap-around technical assistance
  - Financial counseling
  - Business planning
  - Career/business coaching
  - Financial support services
  - Tax and accounting services
- Proven track records

The City of Seattle houses several other business incubators as well. Most incubators focus broadly on business development while several specifically work with members of low-income communities. In addition to El Centro de la Raza, Ventures, based in the north end of the Rainier valley, provides a similar suite of services to low-income business entrepreneurs (Ventures, 2020; Vázquez, 2022). In addition to services similar to those provided by El Centro de la Raza, Ventures provides business coaches who are already established in their field to provide continuing and personalized support to clients. In addition to ongoing coaching programs, Ventures offers business and financial management classes, and requires new clients participate in an 8 week management course (Vazquez, 2022)

The the Washington State Legislature, Cities of Seattle and Tacoma, along with the Puget Sound Regional Council (PSRC) and King and Pierce counties will partner with non-profit business incubators, such as Ventures and El Centro de la Raza, to expand operations and streamline bureaucratic processes for incubator clients. Grants will be made available to non-profit organizations that run business incubators with financial literacy, business technical assistance, business coaching, and business training programs with a client base comprised of at least 60% low-income (80% AMI or lower), and 30% very low (50% AMI or lower). By dedicating grant funds to qualifying community based business incubators, we can increase stability of small businesses and the small business community in at-risk and marginalized communities experiencing gentrification (Alvarez et.al. 2021).

The Community Business Incubator Fund will operate on an opt-in basis for municipalities. Municipal governments hoping to participate must dedicate funding no less than 30% of proposed grant expenditures within municipal limits. Agencies based within municipalities which do not opt-in, and therefore do not contribute, will not be considered. This is to reduce the free-rider effect. Agencies based in unincorporated territories of counties will only be considered eligible if the county council has opted-in and contributed to the fund.

The Washington State Department of Commerce at the direction of the Washington State Legislature will manage this Community Business Incubator Fund, gather contributions from local agencies as required where adopted, and coordinate identifying qualifying agencies. The Community Business Incubator will use these funds to support training, incubation and technical assistance programs in direct service to client businesses. Additionally, the State Department of Commerce will identify point-people to coordinate with all business incubators, not just funding recipients, to guide client businesses through regulatory agencies both at the state and local level.

Community Business Incubator Fund

- Direct support of community based business incubators
- Coordinated services with state and local regulatory agencies
- Municipal opt-in system
- Agencies serve low-income communities
- 70/30 state/local support mixture

CDFIs

Community Development Financial Institution (CDFI) is a designation given to financial institutions, such as banks or credit unions, which operate within majority minority zip-codes and leverage at minimum 60% of financial products in service to low income (80% AMI or lower) clients (Miller, 2022). Most importantly CDFIs financial products in "banking deserts", and often include wrap-around services such as financial planning, education services, and family budgeting including education financing. By serving these communities, CDFIs qualify for various forms of financial support including grants and specialized low- or no-interest loans.

CDFI

- Community-based
- Organizational designation for conventional or non-conventional financial institutions
- Provides financial products — savings, checking, lending — products to low-income clients
- Often rely on grants and specialized low-interest financing for organizational funding
- Start-up and bridge loans only
- 70/30 state/local support mixture
- Opt-in program for local governments and municipalities

Currently, the State of Washington Department of Financial Institutions works with the United States Department of Treasury's CDFI Fund to assist financial institutions in the state to seek federal funding opportunities. However, no specific policies at the state level have been established to support these institutions. Federal regulations establish frameworks for CDFI qualification which, once attained, can be used by qualifying institutions to apply for funding opportunities.

In this proposal, the Washington State Department of Financial Institutions (WADFI) will establish a CDFI Small Business Lending Fund and Small Business Loan Program in addition to a lending and financial insurance framework for CDFI's operating in Washington State aimed at reducing risk for financial institutions operating in low-income and minority majority zip codes. Every Washington State Legislature approved biennial budget will include funding for grants, FHA style loan insurance to ameliorate risk, and support services for state CDFIs in seeking other funding sources. Counties, regional agencies (such as the Puget Sound Regional Council), and Municipalities will be enticed to leverage additional funds to support CDFIs operating within their bounds by pledging funds at their discretion to the State agency with increased property and sales taxation authority. In order to

CDFI Small Business Loan Program

- FHA style loan assurance from WADFI
- Loans to qualifying (80% AMI or lower) minority owned businesses
- Borrower only pays principle
- State WADFI CDFI Fund covers loan insurance and all interest, capped at 6%
- WADFI pools funds with local agencies
- Cap on coverage placed at 2,000 loans/year
- Full default coverage
- No-fault default - no impact to credit score
- Wrap-around services funded through increased grants
- 70/30 state/local support mixture
- Opt-in program for local

assure equitable access, while local government funds will help support locally operating CDFIs, a fund equalization regimen will be employed to earmark small portions of local funds to state-wide grants and services.

This will fund business loans offered by CDFIs to low-income and minority owned businesses on the requirement that the lending institution only charge the borrower for principle. All interest will be covered by the WADFI CDFI Fund. Defaulted loans will be fully covered by the WADFI loan insurance program, and will not reflect on individuals credit rating. In order to accomplish this, WADFI will be a cosignatory on all CDFI Small Business Loan Program loans.

This would be an incredible financial risk for the State, which is why the program may be limited in scope to only serve businesses which are minority and low-income (80% AMI or lower) owned. Additionally, these loans will be targeted to areas experiencing gentrification and displacement caused by transit oriented development, a direct result of State and local government action. This will inherently limit the scope and liability, while targeting a specific population for benefit.

Evaluations

Each of these policy options will be evaluated along three key performance indicators (KPIs):

- Reach: how many members of the communities served might be impacted? How many communities may be impacted?
- Costing: how many businesses or non-residential assets might be supported per dollar spent? Based on reach projections, what should state and local governments dedicate to the proposed programs?
- Political feasibility: What levels of government are required to buy-in to the policy, and how likely are they do to so? How much inter-governmental coordination is necessary? What political appetite is apparent in these levels of government?

Current conditions

Washington State is led by a Democratic Governor, Jay Inslee, with Democratic majorities in both legislative houses (Washington State Legislature, 2022). These heavy Democratic Party majorities are repeated at local levels throughout Western Washington, especially in the Puget Sound region where the Cities of Seattle and Tacoma, as well as King County are all dominated by left-leaning political leaders (Housen, 2022;

King County Equity Now, 2022; Crosscut, 20220. The Mayors, County and City Councilors, Legislators, and Governor have all indicated support for social spending and desire to address issues of inequality. Democrats leveraged a total of $16 billion over the next ten years to increase capital expenditures on transit infrastructure (Murphy and Gomez, 2022). This indicates an appetite for spending on infrastructure and economic development.

LIORS

Reach

Depending on deployment, LIORS has the capacity to for a high degree of reach. Seattle Housing Authority owns and operates over 20,066 units citywide (Seattle Housing Authority, 2020). With a 10% budget dedication to LIORS, this could theoretically support 2,006 retail and office units citywide. However, the focus of these programs is to address displacement of non-residential assets in neighborhoods experiencing transit oriented development, which narrows the scope to only a select number of neighborhoods. That said, just over half of the SHAs developments are already in those areas with new or planned transit stations. Given that only 10% of the City of Seattle's total land is zoned for commercial use, this restricts where LIORS developments would be suitable to a very small portion of the city (City of Seattle, 2021).

If only half of SHA and low-income housing units are constructed in TOD areas, and only 10% of land in Seattle is dedicated to commercial space, we can appropriately assume LIORS will provide units amounting to approximately 5% of total SHA units. This gives us approximately 1,003 LIORS units in the City of Seattle. In 2020, Tacoma Housing Authority (THA) operated a total of 1,833 units (Tacoma Housing Authority, 2020). Applying a similar schematic to Tacoma for calculating LIORS units needed in Tacoma would suggest 91 to be appropriate. This gives us a total of 417 LIORS units in Seattle and Tacoma combined. Using these as a ratio would suggest 6,995 LIORS units to be appropriate for the Seattle metropolitan area, and 13,716 statewide. However, outside the cities outside the Seattle Metropolitan area have far less transit infrastructure investment and experience less gentrification and displacement. But this assessment suggests that the LIORS Policy is likely to assist 1,000-5,000 businesses and other non-residential community assets. Moreover, it is important to note that this is a snapshot estimate based on 2020 housing authority stock numbers. As the region continues to grow as expected, these numbers will as well (PSRC, 2022).

Costing

On the surface it seems that LIORS would be the costliest approach possible of the three proposed. It is a direct investment in infrastructure, which can be costly. Moreover, the continued maintenance and administration of that infrastructure requires ongoing investment. Together, this could lead to a high cost solution. As a note, the LIORS fund, like HOPE VI, is a capital fund, not operational. As such, this cost analysis will only consider construction costs and not ongoing expenses associated with such programs.

In order to create a budget for LIORS, we have relied on development and budget plans for two separate Seattle housing projects. First we chose the Marion West apartments in North Seattle's Roosevelt neighborhood, which receive a light rail stop on October 2, 2021 (National Low Income housing Coalition, 2016). Second we chose New Rainier Vista in South Seattle's Columbia City neighborhood whose light rail stop opened with the first extension. For full budget breakdowns, see Appendix 1: LIORS costing examples.

The Marion West building contains a total of 49 units with a total construction cost of $18.1 million for a cost of approximately $369,000 per unit (National Low Income Housing Coalition, 2016). Considering our above projections; that there is demand enough for up to 13,716 LIORS units state-wide, LIORS capital funding will cost in the at maximum $$5 billion. Seattle and Tacoma LIORS capital expenditures would account for $370 million and $33 million respectively. Using the schematic of shared budgeting — wherein the State government funds up to 70% and local governments covering the remaining 30%, the State burden would amount to $3.5 billion in capital expenditures on LIORS developments.

New Rainier Vista is a development in the South Seattle neighborhood of Columbia City which replaced a war-era housing development owned by the Seattle Housing Authority as public housing (SHA, 2013). The new development is split between several apartment buildings in newly constructed stand-alone and attached housing. The majority of the 895 units built are SHA owned low-income units reserved for individuals and families making less than 30% AMI. For a breakdown of housing partition by income, see table 6 in Appendix 1: LIORS costing examples.

SHA, the City of Seattle, and Sound Transit leveraged a total of $240 million in federal grants, state grants, local funds and private investment (SHA, 2013). This breaks down to $268 thousand per unit. However, most of the private investment in this development was toward the market rate housing, not the low income housing. Only using the funding known to be for low income housing, and only focusing on the 636 low-income units constructed, this amounts to $172 thousand spent per unit.

This gives us a range of costing projections. As we have three disparate numbers for LIORS costing, we have decided to assume the middle most cost schematic, that being that each unit will likely cost in the range of $268 thousand. Assuming this, and following the above market demand, the total cost for the State of Washington would be in the range of $3.6 billion. Seattle and Tacoma would require $269 million and $24 million respectively. Utilizing the cost-sharing program described in the policy section, this would indicate a State appropriation of $2.5 billion.

As noted in the costing section above, this figure is a snapshot. For one, that means it may increase as demand increases with regional growth. Additionally, that means this does not have to be accomplished in one year, and can be completed in phased investments. It is possible that this in combination with the other proposed policies may alleviate enough pressure on distressed businesses and communities so as to avert the worst impacts of gentrification. In such a case, it is likely that the full amount of investment is not required.

Political feasibility

The Washington State Legislature is currently led by a strong Democratic majority (Washington State Legislature, 2022). Speaker of the House Laurie Jenkins and the rest of the Democratic Legislature Leadership has been centering "shovel ready" projects which would build physical assets in the state, as evident in the $16 billion transportation infrastructure bill (Murphey and Gomez, 2022). At the state level, there has been an appetite for construction projects to address issues of climate change, environmental degradation, homelessness, and social inequities. Getting buy-in from the state Democratic leadership may be possible.

King County Council has several members eager to support economic development and social equity programs. Council member Grimy Zahilay, council district 2, notes on his county council member page promoting services that protect against gentrification as his first priority (Zahilay, 2021). This sentiment is echoed by Council member Rob Dembowski, council district 1, who has voiced support for increased transit access, while fighting displacement and economic disparity (Demboawski, 2021). Councilmember Joe McDermott, council district 8, has historically supported King County spending funds on affordable housing, and has called for State lawmakers to increase funding (McDermott, 2021). King County Executive Dow Constantine has long advocated for increased public housing and the need for public intervention into homelessness and gentrification (King County, 2022).

Considering the supportive rhetoric for various aspects of this policy from the identified levels of government, it seems likely a LIORS type project may be feasible. However, there is opposition to increased spending from some segments of the body politic. Republicans on the county councils of Pierce, King, and Snohomish counties generally oppose developments of new programs, even housing and economic infrastructure. King County council member Reagan Dunn expressed opposition to and voted against the 0.1% sales tax to fund housing for homeless residents of King County, stating the funds would be poorly spent and the tax would harm local small businesses (King County, 2020).

This program would superficially require buy-in from several levels of government: State, Regional (PSRC and ST), County, and Municipal. Any one of these tiers may reject the proposal, and it is likely that one will. Though this may threaten the program, if the State were to establish the it, it can move forward without any one of the others who choose not to participate on a more limited scope. If a county or regional agency abstains from participating, this could both limit the reach, and reduce the cost of the program. And again, the ability to approach this program in phases may make it more financially and politically feasible.

CDFI Small Business Loan Program

Reach

Washington State is home to some 608,956 small businesses; businesses with 100 employees or fewer (Uzialko, 2021). According to the United States Census Bureau, some 38% of small businesses are minority owned (U.S. Census Bureau, 2021). This indicates that in Washington State likely 231,403 small businesses are minority owned. Considering many small businesses are in towns and cities across the state not experiencing the gentrification effects of Seattle, and the focus of these policies specifically on displacement caused by transit oriented development as a government action, only a small fraction of these businesses would be the focus of the CDFI Small Business Loan policy. If we assume 5% of small businesses owned by members of marginalized communities are in these enclaves as indicated in the LIORS analysis, this focuses us on 11,582 businesses. We can consider this to be a baseline for number of businesses yearly to be supported by this policy.

This suggests that the CDFI Small Business Loan Program can cover up to 11,570 individual businesses, but likely would cover far fewer, more on the scale of 1-2 thousand yearly at most. The financial literacy programs may have a wider reach with upwards of 20-30 thousand yearly. Though the business loan program has a narrower direct impact, the social impact through equity building, representative business development and retention, and creation and retention of social capital hubs is incalculable.

Costing

Most of the cost of this program would be related directly to the loans themselves — the insurance, interest coverage, and administration. Additional costs associated with financial literacy would be marginal comparatively. For a breakdown of these services, see the Business Incubator section. The benefit to communities would be increased wealth and financial stability, and more representative businesses. Some of this latter benefit would be difficult if not impossible to calculate; social capital is well documented but difficult to quantify without regular in-depth sociological surveys.

The average start-up small business loan is $633,000 (Shepherd, 2022). However, lower income businesses generally rely on lower value loans; and lower income and wealth communities generally support lower income businesses (Alvarez et.al., 2021). We can therefore assume lower value start-up loans, $600,000, for instance. Assuming an interest rate of 6%, which is within the current range of average business loan interest rates, compounded over 30 years, a $600,000 loan has a total value of $1,295,029. As the policy is that the borrower is only liable for the $600,000 principle, the remaining $695,029 in interest is the CDFI Small Business Loan Program coverage (Wood, 2021). Assuming a ten year default rate of 17%, which is the current average, default insurance on this loan would be $215,838 (Voigt, 2017). Given this, the average loan covered by this program can be assumed to cost a total of $910,867.

If the above numbers are borne out, the total yearly cost of the CDFI Small Business Loan Program would be in the $10.5 billion range. With the state covering 70% of this, approximately $7.3 billion, local governments — PSRC, King County, Pierce County, and the cities in the Puget Sound area — would cover the remaining $3.1 billion. However, it is unlikely that this program would cover as many as 4,633 businesses, and is more likely to reach a far smaller number, both due to administrative limitations and market conditions. Considering a cap of 2,000 loans, the total yearly cost of this program drops to $1.8 billion, with the State covering $1.2 billion, and $546 million from local governments. Here, the hope would be that by providing a baseline of insurance and funding, other financial institutions would be incentivized to invest in CDFIs, increasing their liquid assets and covering a portion of the remaining businesses.

Political feasibility

This would require possibly the heaviest lift legislatively. Though the state administration WADFI already exists, this would require a new financial insurance framework to be established by the State Legislature. The legislative and executive branch controlling Washington State Democratic Party has established a rigorous and aggressive approach to social and economic equity, creating the first-in-the-nation statewide Office of Equity (Gregerson, 2020). However, while the party has expressed an appetite for progressive policies, the legislative leadership has shown a strong preference for shovel-ready and physical infrastructure policies, as indicated in the transportation package (Murphy & Gomez, 2022). It is plausible the high price-tag associated with a lending program would scare off more moderate Democratic representatives.

Candidates in local government races have identified banking deserts and financial literacy as an important issue facing lower-income residents. During his 2017 mayoral race, State Senator Bob Hasegawa proposed a municipal bank and leveraging city funds to support CDFIs in order to help low-income residents, especially unhoused Seattleites (Porter, 2017). Then fellow candidate, future Mayor and now former Mayor, Jenny Durkan ridiculed this proposal (Hsieh, 2017). This indicates mixed reception to the concept of government — state or local — involvement in banking. See Appendix 2: CDFI Small Business Loan Program Cost Examples for further information.

Community Business Incubator Fund

Reach

In order to assess how many businesses may be served by the business incubator program, we will rely on the assessment from both other policies and a projection of how many entrepreneurs are served per community business incubator in the state as indicated by the reach of both El Centro de la Raza and Ventures. This will give us two possible projections. By combining an assessment of the number of small businesses likely to access the small business loans, and the predicted market for LIORS units, we can create a projection of possible Community Business Incubator Fund clients.

See Appendix 3: Business Incubator Cost Examples for reach projections. Review the *Reach* sections of LIORS and CDFI Small Business Loan Program for context. In our assessment, without a cap, the CDFI Small Business Loan Program is likely to reach some 11,570 businesses state-wide. We predicted the LIORS program to reach some 3,310 businesses. If the Community Business Incubator Fund is associated with the CDFI Small Business Loan Program, it is likely it would reach in excess of the potential clients therein. Many CDFI's, in fact, wrap services similar to those offered by business incubators (Miller, 2022; Vázquez, 2022). It is therefore probable that this program will reach more than 5,000 clients.

In 2007 Washington State had 24 small business incubators operating (Wolley, 2007). In South Seattle, Ventures and El Centro de la Raza serve overlapping communities. While El Centro de la Raza serves Latino/Latinx community members primarily in the city of Seattle, Ventures supports supports low- to moderate-income entrepreneurs state-wide (Maestas, 2022; Vázquez, 2022). By 2022, El Centro had served 220 entrepreneurs (Maestas, 2022). By 2020, Ventures had served 4,667, with 710 served in 2020 alone (Ventures, 2020). If we consider these two business incubators to be indicative of the service reach for others in the sate, we can average their seven year client base and assume that each of the 24 existing business incubators in Washington State can serve 698. If we use this to project the potential reach for the Community Business Incubator Fund can reach 16,755 entrepreneurs state-wide yearly.

Costing

In 2019, Ventures had a business incubator program budget of $1,394,069 (Ventures, 2019). With this budget, the organization was able to serve 587 client entrepreneurs (Ventures, 2019). The per-client budget was therefore $2,378.96. This number will be used with the three likely possible and specific participant numbers outlined above to create potential budgets.

If considering the reach of this program to mirror the potential reach of the CDFI Small Business Loan Program of a maximum of 11,582, the total state-wide cost will be in slight excess of $27 million, with

$19.2 million contribution from the State and $8.2 million contribution from local governments. If we base the Business Incubator Fund on LIORS projections of 13,716 the statewide cost will be nearly $32.6 million, with $22.8 million State contribution and $9.8 million local government contribution. Basing projections on past participation in business incubators, and assuming the average of 698 and state-wide demand of 16,755 potential entrepreneur participants, the we expect a cost of $39.8 million. In this case, the State contribution should be $27.9 million, and local governments would be expected to contribute $11.9 million.

Of the three policies, this program is the least expensive. Moreover, as mentioned, they have a proven track-record of improving business stability and raising both client equity and overall wealth. This makes it a very attractive option. See Appendix 3: Business Incubator Cost Example

Political feasibility

Political actors of the State and Regional governments party to this proposal have voiced support for similar programs. The State of Washington funds similar programs with the Department of Commerce and Office of Minority & Women's Business Enterprises (Office of Minority & Women's Business Enterprises, 2019). Given the aforementioned political support for similar business support programs within the CDFI context, it is likely that both State and Local governments would support leveraging funds to support this grant fund.

Of the three programs, this would also require the least inter-agency coordination, as creating a Community Business Incubator Fund within the OMWBE would easily streamline the process. This would only require participating local agencies to contribute financially to this agency in order for qualifying business incubators to participate.

Conclusion

While in a perfect world, it would be advised that each of these policies should be adopted, this is impractical. Though Washington State still operates with a significant yearly budget surplus, economists are predicting an economic slow-down or even recession in the coming years (Murphy & Gomez, 2022). Maintaining this surplus as-is, or maintaining some amount, may insulate the state from any tax revenue losses that result. These factors have weighed on our assessment and the following ranking of the proposed policies.

1. Community Business Incubator Fund: Of the options, this seems the most politically feasible. The cost per business served is extremely low, and outcomes shown from existing incubators are promising. This program is scalable and can easily be used to target necessary groups. Moreover, even the highest projections are just 3.2% those of the least expensive of the other programs, LIORS. In addition to being the least expensive program, the projections suggest this program would have the farthest reach, at 362% that of the next most socially penetrative program presented, the CDFI Small Business Loan Program.

The drawback of this program is that it does not solve the lack of affordable retail and office space in urban spaces. To that end, this policy would be best if partnered with some investment in low-income office and retail space. For cross-tab comparisons see Appendix 5: Cross-Comparisons.

2. LIORS: The LIORS program offers a solution to the policy gap the Community Business Incubator leaves: lack of affordable office and retail space. The LIORS program has the potential to greatly increase access to quality and low-cost space for struggling businesses and new, low-income entrepreneurs from marginalized communities. It fits well with the State Democratic Party's social and economic equity policy, and the propensity for funding infrastructure development. Moreover, this policy increases the State and local government total financial equity by increasing owned infrastructure, which can be leveraged later as a financial asset.

The most notable drawback is the cost and administrative burden. Costing a range between just under $1billion to nearly $11 billion, this is a significant investment. Though the state has the finances to leverage, it is questionable if there is political appetite to do so. This policy would require local agencies put up funds in addition, and while the cities of Seattle and Tacoma both maintain aggressive housing policies, LIORS would dramatically alter the portfolios of municipal housing authorities. Moreover, of the three policies, this would have the most limited reach.

3. CDFI Small Business Loan Program: The CDFI Small Business Loan Program would be a dramatic policy investment. This program would increase CDFI loan capacities significantly, and spur outside investment in CDFIs as the insurance scheme improves both institutional and community stability. This program directly addresses the core directive of the newly created State Office of Equity

(H.B. 1783). CDFIs have proven track records at improving community and individual wealth, while increasing financial wellbeing through financial literacy and equitable financial products (Miller, 2022).

However, this program is by far the most costly. At $10.5 billion, this program is 208% the cost of LIORS, and 2,642% the total cost, and 38,305% per client that of the Community Business Incubator Program.

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Appendices

Appendix 1: Select City Demographics

	Seattle, WA	Kansas City, MO	San Francisc	Portland, OR	Minneap olis, MN	Chicago, IL	United States
Population, Census, April 1,	**737,015**	**508,090**	**873,965**	**652,503**	**429,954**	**2,746,388**	**331,449,28**
White alone,	67.30%	60.90%	46.40%	77.40%	63.60%	50.00%	76.30%
Black or African American	7.30%	28.20%	5.20%	5.80%	19.20%	29.60%	13.40%
American Indian and	0.50%	0.40%	0.40%	0.80%	1.40%	0.30%	1.30%
Asian alone,	15.40%	2.70%	34.40%	8.20%	5.90%	6.60%	5.90%
Native Hawaiian and Other Pacific	0.30%	0.20%	0.40%	0.60%	0.00%	0.00%	0.20%
Two or More	6.90%	3.60%	5.60%	5.30%	4.80%	2.80%	2.80%
Hispanic or Latino,	6.70%	10.60%	15.20%	9.70%	9.60%	28.80%	18.50%
White alone, not Hispanic	63.80%	55.20%	40.50%	70.60%	60.00%	33.30%	60.10%
Median household income	$92,263	$54,194	$112,449	$71,005	$62,583	$58,247	$62,843

Table 1: Midsized Cities Demographics. Demographics of Seattle compared to like cities and nation (U.S. Census Bureau, 2020).

Appendix 2: LIORS Costing examples

	Number of Units	Number of LIORS units	Population	LIORS Ratio (per capita)	Projected Number
Seattle	20,066	1,003	737,000	0.136%	NA
Tacoma	1,833	92	222,975	0.041%	NA
State of Washington	NA	NA	7,738,692	0.1772362%	13,716
Seattle Metro	NA	NA	3,946,733	0.1772362%	6,995

Table 2: Ratios for reach projection of LIORS. (SHA, 2020; THA, 2021; U.S. Census, 2021)

Source	Total Funding	Cost Per Unit	15-year Amortization of Total Cost	Amortized cost per unit
LIHTC	$8,720,000	$177,959	$581,333	$11,864
HOME	$2,450,000	$50,000	$163,333	$3,333
Other financing	$6,930,000	$141,429	$462,000	$9,429
Total	$18,100,000	$369,388	$1,206,667	$24,626

Table 3: Development costs for Marian West, Seattle (National Low Income Housing Coalition, 2016)

	Single unit cost	Seattle	Tacoma	Seattle Metro	Washington State
Total	$369,388	$370,606,730	$33,983,673	$2,583,882,383	$5,066,436,045
State portion	$258,571	$259,424,711	$23,788,571	$1,808,717,668	$3,546,505,231
Local portion	$110,816	$111,182,019	$10,195,102	$775,164,715	$1,519,930,813

Table 4: LIORS costing using Marian West, Seattle as a basis (National Low Income Housing Coalition, 2016)

Funding source	Amount	Amount for Affordable Housing	Amount for market rate housing
Private investment	$130,000,000		$130,000,000
Tax-exempt borrowing	$35,000,000	$35,000,000	
HOPE VI grant	$35,000,000	$35,000,000	

Funding source	Amount	Amount for Affordable Housing	Amount for market rate housing
Other public funding	$22,000,000	$22,000,000	
Tax-credit partnership equity	$18,000,000	$18,000,000	
Total investment	$240,000,000	$110,000,000	$130,000,000
Per unit investment	$268,156	$172,956	$501,931

Table 5: Development costs for New Rainier Vista, Seattle (SHA, 2013)

Housing type	Units developed	Units Low Income	Units Extremely Low Income	Units moderately low income	Market Rate Housing
Public housing	251	251	251		
Senior housing	78	78	78		
Disabled rental housing	22	22	22		
Affordable rental housing (Extremely low and low income)	226	226	113	113	
Rental housing (Any income level)	48				48
Affordable for-sale housing (Low income)	59	59		59	
For-sale housing (Any income level)	211				211
Total units	895	636	464	172	259

Table 6: Unit development breakdown, New Rainier Vista, Seattle (SHA, 2013).

Estimate cost level	Single unit	City of Seattle	City of Tacoma	Seattle Metro	Washington State
Low Total	$172,956	$173,526,755	$15,911,952	$1,209,834,277	$2,372,224,072
Low State	$121,069	$121,468,728	$11,138,366	$846,883,994	$1,660,556,851
Low Local	$51,887	$52,058,026	$4,773,586	$362,950,283	$711,667,222
High Total	$501,931	$503,587,372	$46,001,976	$3,511,027,825	$6,884,368,283
High State	$351,352	$352,511,161	$32,201,383	$2,457,719,477	$4,819,057,798

Estimate cost level	Single unit	City of Seattle	City of Tacoma	Seattle Metro	Washington State
High Local	$150,579	$151,076,212	$13,800,593	$1,053,308,347	$2,065,310,485
Medium Total	$268,156	$269,040,915	$24,576,497	$1,875,762,161	$3,677,965,022
Medium State	$187,709	$188,328,640	$17,203,548	$1,313,033,513	$2,574,575,515
Medium Local	$80,447	$80,712,274	$7,372,949	$562,728,648	$1,103,389,507

Table 7: LIORS Costing using SHA New Rainier Vista development as basis.

Appendix 3: CDFI Small Business Loan Cost Example

Loan amount		$600,000
Base interest		6%
Pay periods		360
Interest payment	$	1,931
Borower payment	$	1,667
Total monthly payment	$	3,597
Total loan value	$	1,295,029
Total Gov coverage	$	695,029
Total cost to borrower	$	600,000
Insurance on loan	$	215,838
Total cost to government	$	910,867

Table 8: Breakdown of individual CDFI Small Business Loan costing.

	Without cap	With 2000 cap	With 1000 cap
Number of small businesses in WA	608,956		
Proportion minority/ marginalized community owned	231,403		

	Without cap		With 2000 cap		With 1000 cap	
Proportion minority/ marginalized community businesses in high risk TOD gentrifying areas		11,570		2,000		1,000
Total loan program yearly cost	$	10,538,880,572	$	1,821,734,637	$	910,867,318
State portion	$	7,377,216,401	$	1,275,214,246	$	637,607,123
Local coverage	$	3,161,664,172	$	546,520,391	$	273,260,196

Table 9: Pricing based on various potential participation projections.

Appendix 4: Business Incubator Cost Example

Ventures 2019 financial report - Business Incubator programs

	Core Training		Core Incubation		Capital		Total	
Salaries and Wages	$	547,268	$	114,535	$	208,072	$	869,875
Payrll Taxes and Benefits	$	107,427	$	22,483	$	40,844	$	170,754
Subtotal	$	654,695	$	137,018	$	248,916	$	1,040,629
Professional and contract	$	75,446	$	17,045	$	1,323	$	93,814
Facilities	$	22,592	$	62,507	$	10	$	85,109
Program Supplies	$	17,945	$	22,681	$	5,354	$	45,980
Communications	$	10,982	$	2,298	$	34,845	$	48,125
Office Supplies and Equipment	$	20,710	$	6,225	$	2,913	$	29,848
Fundraising	$	8,313	$	-	$	-	$	8,313
Professional Development	$	-	$	-	$	538	$	538
Miscellaneous	$	7,000	$	146	$	246	$	7,392
Depreciation	$	8,867	$	-	$	-	$	8,867
Bank Charges and Credit Card Fees	$	602	$	6,656	$	16	$	7,274

	Core Training	Core Incubation	Capital	Total
Travel and Entertainment	$ 3,201	$ 1,211	$ 516	$ 4,928
Insurance	$ 3,703	$ 775	$ 1,408	$ 5,886
Interest	$ -	$ -	$ 3,752	$ 3,752
State and Local Taxes	$ 1,575	$ 2,039	$ -	$ 3,614
Total	$ 835,631	$ 258,601	$ 299,837	$ 1,394,069
Number Served	587	587	587	587
Program Cost Per Client	$ 1,424	$ 441	$ 511	$ 2,375

Table 10: Ventures Business Incubator cost breakdown, 2019. (Ventures, 2020)

	In excess of CDFI and LIORS	Based on CDFI: Without cap	Based on LIORS: State-wide	Based on Business Incubator Projections
Number of small businesses in WA		608,956		
Proportion minority/ marginalized community owned		231,403		
Proportion minority/ marginalized community businesses in high risk TOD gentrifying areas	5000	11,570	3310	16755
Cost per business	$ 2,378.96	$ 2,378.96	$ 2,378.96	$ 2,378.96
Total	$ 11,894,800	$ 27,524,957	$ 7,874,358	$ 39,860,494
State coverage	$ 8,326,360	$ 19,267,470	$ 5,512,050	$ 27,902,346
Local coverage	$ 3,568,440	$ 8,257,487	$ 2,362,307	$ 11,958,148

Table 11: Costing projections for business incubators based on potential participation projections.

	Statewide	Seattle Metro Area	Seattle City Limits	Tacoma City Limits
Number of Clients	16755	8545	3073	930
Cost Per Client	$ 2,378.96	$ 2,378.96	$ 2,378.96	$ 2,378.96
Statewide	$ 39,860,494	$ 20,328,852	$ 7,311,395	$ 2,211,870
State Contribution	$ 27,902,346	$ 14,230,196	$ 5,117,976	$ 1,548,309
Local Contribution	$ 11,958,148	$ 6,098,656	$ 2,193,418	$ 663,561

Table 12: Costing projections for Community Business Incubator fund based on participation projection

Appendix 5: Cross-Comparisons

		LIORS	CDFI SBL	CBI Fund
LIORS	**13,716**		84%	122%
CDFI SBL	**11582**	118%		145%
CBI Fund	**16755**	82%	69%	

Table 13: Reach comparison for programs. Read as "LIORS reaches 118% the number reached by the CDFI SBL program".

		LIORS	CDFI SBL	CBI Fund
LIORS	**$ 5,066,436,045**		208%	8%
CDFI SBL	**$10,538,880,572**	48%		4%
CBI Fund	**$ 398,860,494**	1270%	2,642%	

Table 14: State total cost comparison for programs. Read as "LIORS costs 48% the total of the CDFI SBL program".

		LIORS	CDFI SBL	CBI Fund
LIORS	**$ 369,388**		247%	0.644%
CDFI SBL	**$ 910,867**	41%		0.261%
CBI Fund	**$ 2,378**	15,534%	38,304%	

Table 15: Per-served cost comparison for programs. Read as "LIORS costs 14% per client what the CDFI SBL program costs".

Appendix 6: Interview with Mele Miller

Video 1: Bradon Rothschild Interview with Mele Miller 1. April 18, 2022.

Video 2: Bradon Rothschild Interview with Mele Miller 2. April 19, 2022.

Appendix 7: Interview with Miguel Maestas

Video 3: Bradon Rothschild Interview with Miguel Maestas. April 1, 2022.

Appendix 8: Interview with José Vázquez

Video 4: Bradon Rothschild Interview with José Vázquez. April 29, 2022.