

Housing Policy Report  
Of the Twin Cities  
Fully Developed Suburbs and School Districts

Presentation to the  
Community Development Committee  
of the  
Metropolitan Council  
July 15, 2013

## Section I - Overview

Over the past 30 years, the suburbs of the Twin Cities region have evolved in exciting ways. These communities—once “Leave it to Beaver”-style, all white, bedroom developing suburbs—are now fully developed municipalities with job growth, transit options, and a demographic makeup that resembles America as a whole. Map 1 illustrates the extent to which the neighborhoods in the fully developed suburbs have become racially diverse.

These communities contain some of the best of what America has to offer. They are racially integrated, have strong schools, and are effectively governed—delivering quality services at affordable tax rates. As integrated communities they offer the best chance to eliminate the racial disparities in economic opportunity which have persisted in American metropolitan areas for decades. They offer the most equal access to good schools, a clear path to living wage employment for all their residents, and are the places where whites and non-whites have the best relations and the most positive views of one another.

These communities house the headquarters of a number of Fortune 500 companies in a wide variety of industries, including retail (Best Buy headquartered in Richfield, SuperValu headquartered in Eden Prairie), medical device technology (Medtronic headquartered in Fridley), and food production and distribution (CHS headquartered in Inver Grove Heights, General Mills headquartered in Golden Valley). These businesses are attracted to competitive tax rates and well educated, stable communities.

They have also featured impressive redevelopment projects, like the Excelsior and Grand in St. Louis Park, and Lakes at Lyndale in Richfield.

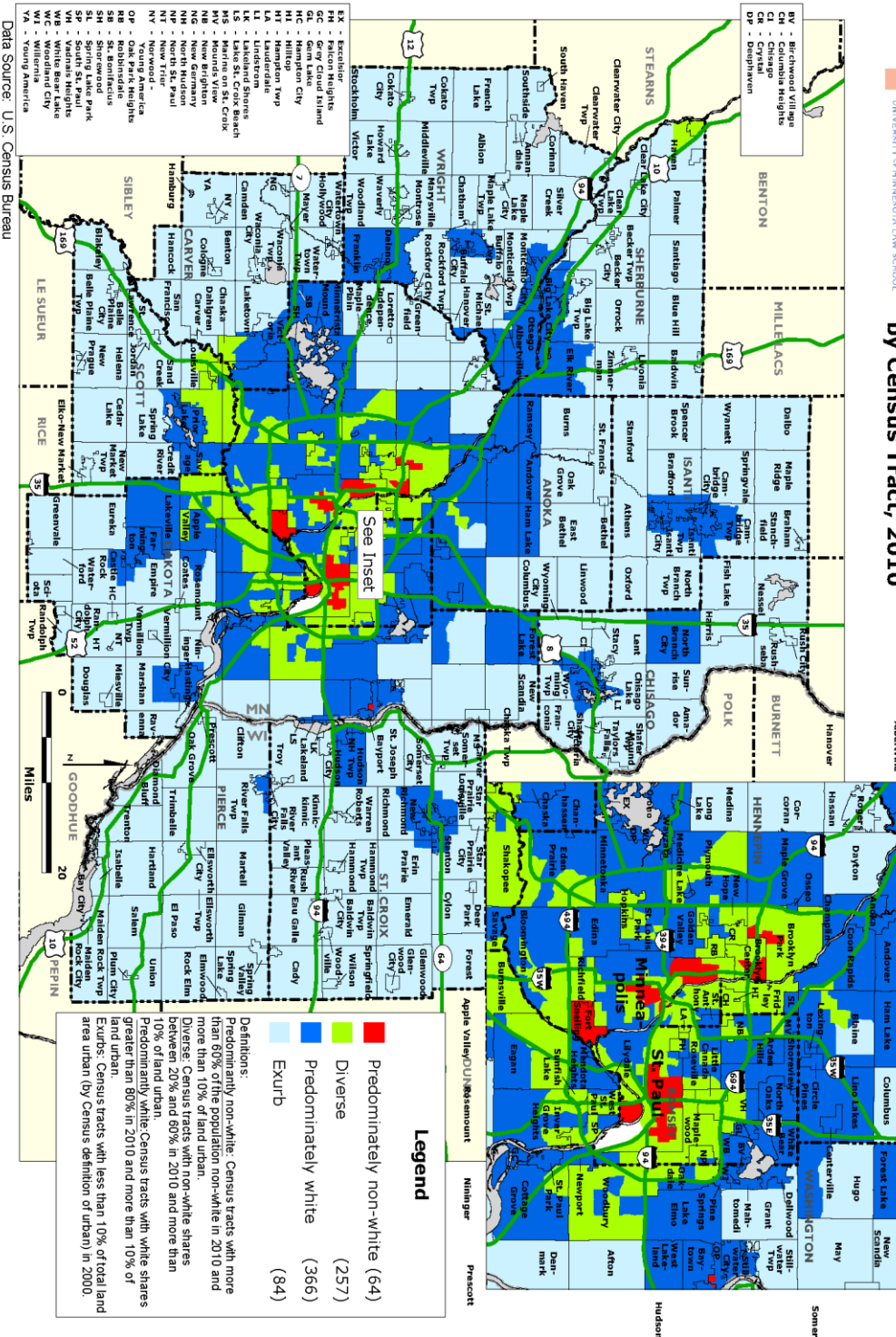
Yet, while these suburbs represent a great hope for the future, they also face serious challenges to their stability. Many are in the midst of rapid social and economic change reminiscent of changes that occurred in large cities in the second half of the twentieth century. This instability has raised concerns about re-segregation.

When re-segregation occurs, communities struggle—educationally, economically, and physically. Growing concentrations of poverty create serious problems and costs for schools; decreasing incomes lead to business closures which are not replaced by new businesses; banks withdraw necessary credit (and often engage in predatory behavior); and as tax bases decline, tax rates climb, with no corresponding increases in services. Middle income individuals of all races, particularly young families with children, and businesses with economic choices do not opt for these communities, moving instead to ones at the exurban fringe with better prospects.

This type of re-segregation is not unprecedented. In a recent study, the Institute on Metropolitan Opportunity examined the changing nature of suburban communities in the 50 largest metropolitan areas. The study demonstrated that many seemingly integrated areas are actually on the path towards re-segregation. Neighborhoods which were integrated in 1980—census tracts with non-white shares between 20 and 60 percent—were much less stable than predominantly white or predominantly non-white neighborhoods.

The fully developed suburbs of Minneapolis and St. Paul have begun to experience these pressures. In 2000, 5 percent of the population in the Twin Cities region lived in diverse suburbs.

Map 1: MINNEAPOLIS-SAINT PAUL REGION  
Neighborhood Type  
by Census Tract, 2010



By 2010, that number had jumped to 23 percent, with 29 suburban municipalities qualifying as diverse suburbs. Many of these areas are in the midst of rapid racial change. For instance, the non-white share of the population increased by more than 20 percentage points between 2000 and 2010 in Brooklyn Center, Columbia Heights, and Brooklyn Park. Similarly, the cities of Fridley, Richfield, Shakopee, and Maplewood saw an increase of more than 15 percentage points. Overall, the non-white share of the population in the Twin Cities' 29 diverse suburbs increased by more than 13 percentage points on average between 2000 and 2010, the fourth highest rate among the country's 50 largest metropolitan areas.

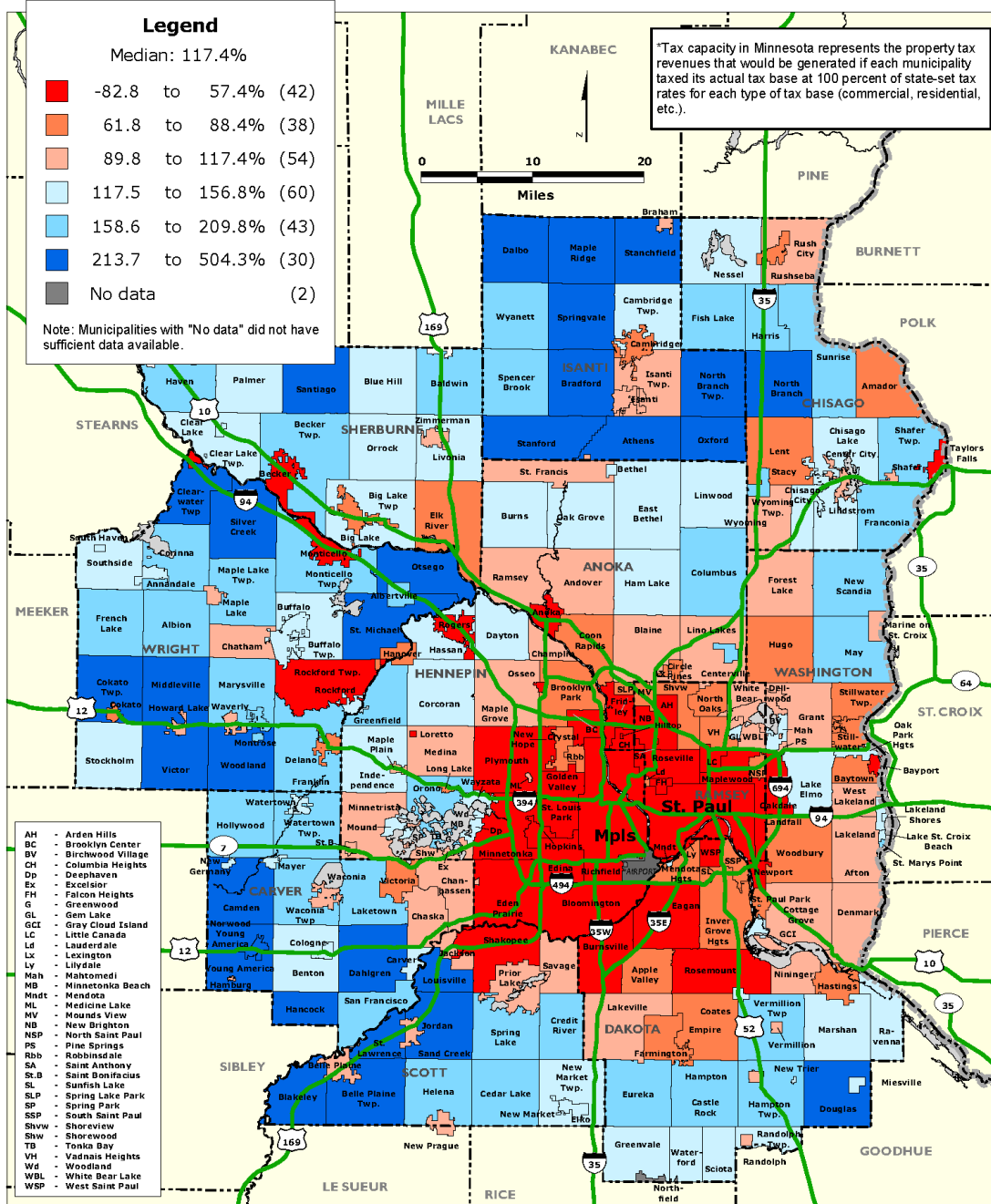
However, unlike the rest of the country, where 12 percent of metropolitan communities are composed of predominantly non-white suburbs (over 60%), the Twin Cities has no communities in this category. But trends suggest that both Brooklyn Park and Brooklyn Center will be there by the next decade and perhaps Richfield. There is concern in many of the fully developed suburbs that without policy action some of the same trends towards disinvestment and decline seen in fully developed suburbs throughout the country will occur in the twin cities region.

Recognizing these challenges, a forum was held on Nov. 15<sup>th</sup> 2012 for the fully developed suburbs. Municipal and school district leaders were given the opportunity to share some of their experiences with, and concerns about, recent trends. This report reflects a growing understanding of the shared challenges facing the fully developed suburbs, and the need for the Met Council and the State of Minnesota to implement policies that will strengthen these communities and the region as a whole.

The sense of concern about the unique challenges facing these communities was summed up best by Jason Aarsvold, Brooklyn Park's Director of Community Development: "we see a lot of dollars and investment going to the central cities, and a lot of dollars and investment in infrastructure going into making it easier to develop further out, I think often times developed suburbs get caught and everyone assumes everything is just fine and the reality is that it isn't." Aarsvold's assessment is bolstered by Map 2 depicting the change in tax capacity—how much revenue a municipality could raise if it taxed its residents at full amounts—in the Twin Cities region from 1995-2010. The Map demonstrates that almost all of the inner ring suburbs have faced tax capacity stagnation or decline in recent years.

The potential for racial and economic re-segregation has emerged as a signature concern for these communities. Research has shown that once the share of non-white residents grows beyond a certain threshold, integrated communities will tend to "tip"--moving from stably integrated to non-white segregated. "Tipping" reflects the "white-flight" phenomenon where wealthier white residents move to newly developing suburbs, leading to community disinvestment and a declining tax-base in the formerly integrated suburban communities. Many of the fully-developed suburbs in the Twin Cities region are approaching the "tipping" threshold and a few have already surpassed it. "Tipping" or re-segregation, while common, is not inevitable. Stable integration is possible, but it does not happen by accident. It is the product of clear race-conscious strategies, hard work, and political collaboration among local and regional governments.

### Map 2: MINNEAPOLIS - SAINT PAUL REGION Percentage Change in Property Tax Capacity Per Capita by Municipality, 1995-2010



Data Source: Minnesota State Auditor.

In order to effectively address these challenges, two points must be recognized. First, housing and school policy are intimately linked and strategies must address both of these areas in order to succeed. “The strength of a school district is vitally important to the strength of a community,” emphasized Tom Harmening (City Manager, St. Louis Park). “If our school district goes, so does our community.” Melissa Krull (Superintendent, Eden Prairie 2002-11) agreed: [school district officials and city officials] have to come together around the issues if we are going to make the changes that we know need to make for our communities and school districts.” Second, local policy action is not enough. Without regional coordination, neighborhoods, municipalities, and school districts will struggle to remain stably integrated and vital communities of opportunity. John Stark (Community Development Director, Richfield) made this clear: “I really think that’s where the solution is, at the regional planning or regional policy level.”

For these reasons, the leaders of municipalities and school districts have come together to recognize a shared goal of stable integration and opportunity, identify the main impediments to this goal, and encourage the Met Council and State of Minnesota to take policy action to address these impediments. These communities believe that effective and concerted policy action will help them avoid re-segregation and disinvestment. By doing so, they believe that their communities, their schools, and the entire region can grow and remain places of opportunity for all residents.

The main impediments to achieving stable integration are:

- Housing policies that concentrate low income housing in communities and municipalities that already contain their fair share of market rate and subsidized affordable housing.
- Illegal discriminatory practices by private actors, such as mortgage lending discrimination by banks and steering by real estate agents.
- Older suburban school systems that are growing increasingly segregated, straining resources, and leading to an increase in neighborhood and municipal segregation.

Critical to stabilizing these suburbs are the following strategies:

- The creation of an effective Fair Housing Equity Assessment and Regional AI that informs Met Council Policy
- Reweight affordable housing goals with less emphasis on transit and jobs, and more emphasis on stable residential integration,
- More resources for improving existing, unsubsidized affordable housing,
- A return to Policy 13/39--the Met Council’s fair share, pro-integrative housing policy that was implemented between 1970 and 1986.
- Creation of local stable integration plans with fair housing ordinances, incentives for pro-integrative home loans, cooperative efforts with local school districts, and financial support of pro-integrative community-based organizations.
- Greater enforcement of existing civil rights laws including the Fair Housing Act, especially the sections related to racial steering, mortgage lending discrimination and location of publicly subsidized affordable housing.

- Adoption of metropolitan-scale strategies to promote more integrated schools.

These policies will allow the fully developed suburbs to remain vital, stably integrated places of opportunity.

## Section II – Impediments and Opportunities

### a. Housing Policies

The current housing policies in the Twin Cities region channel affordable housing resources into areas based on jobs and transportation access. These areas are predominantly the central cities and fully developed suburbs. This housing policy is pro-segregative and has become an impediment to stable integration in the twin cities region.

The Met Council currently determines affordable housing goals based on four factors: 1) expected household growth; 2) ratio of local low-wage jobs to low-wage workers; 3) current provision of affordable housing; and 4) transit service. By weighting transit and jobs so heavily, the Met Council biases the addition of affordable housing towards the central cities and fully developed suburbs. A similar problem permeates Minnesota Housing’s Qualified Allocation Plan (QAP)—which helps determine the location of Low Income Housing Tax Credit funds.

For the fully developed suburbs, these policies lead to further instability in their communities. By concentrating affordable housing in these municipalities, housing policy makers are increasing the likelihood that they will “tip” and re-segregate.

“We have a lot of affordable housing, we think we have surpassed our goal, we did an inventory that has shown that,” Debbie Goettel, Mayor of Richfield noted. “We have great transit, and that brings the affordable housing, but it shouldn’t be all the burden of some suburbs, it needs to be spread out.” Jason Aarsvold, Community Development Director of Brooklyn Park agreed: “we have had some of the same complaints about how affordable housing is apportioned out through cities; it was done by saying how much the metropolitan area is going to need over the next years? Then they ask: where can it go? Where is there room to develop it? . . . but the issue [of where it goes] is far reaching and more important than just plunking it down on a piece of available land . . . we would like to see some consideration of some of the larger issues that go along with that.”

The fully developed suburbs believe that their communities should get more credit for the currently existing market rate affordable housing. “We also need the Met Council . . . to recognize what we have,” emphasized John Stark, Community Development Director of Richfield. “It doesn’t feel like people are giving us the credit for what we have there now, and that’s important.” This sentiment was shared by Tom Harmening, City Manager of St. Louis Park: “I think the Met Council needs to recognize that there is a lot of naturally occurring affordable housing in communities, which holds true for St. Louis Park, I’m not sure there is really much credit given for that.”



The fully developed suburbs—and the region as a whole—will benefit from a regional housing plan that is pro-integrative. This type of policy would require consideration of the racial and economic makeup of schools and neighborhoods. The affordable housing goals would reflect these considerations and have the practical effect of reducing region-wide segregation, in both schools and neighborhoods. Map 3 shows the results of an analysis of the Twin Cities region that grouped census tracts based on five dimensions measuring opportunities available to residents—access to jobs, access to social services, school quality, environmental quality, and safety.<sup>1</sup> The areas shaded in blue are characterized by good schools, low crime and high quality environmental features; the yellow areas show opportunity characteristics roughly equal to regional averages; and the green tracts show strong access measures (the strength of central locations) but poor school, safety and environmental characteristics.

Although none of the three groups are uniformly strong across all of the opportunity dimensions, the blue areas are the ones that show both high opportunity and the potential for stably integrated neighborhood schools and neighborhoods.

The characteristics of the three groups show this very clearly. The schools and neighborhoods in the blue shaded areas are primarily white and middle class, while the yellow areas are facing the prospect of “tipping” and a greater concentration of poverty. The blue shaded area contains 41% of the 7-county population, but only 23% of the population with an income of 185% of the poverty line or less. These communities are also overwhelmingly white (85%), with few Black (4%) or Hispanic (3%) residents. In 2010, the elementary schools in the blue shaded area were made up of 22% minority students and 22% students with free or reduced lunch. In contrast, the yellow shaded areas contained elementary schools with 48% minority students and 47% students eligible for free or reduced-price lunch and these numbers had increased by 12-13 points in the previous decade. Schools in the green areas have already gone through dramatic racial and economic transitions with minority and free and reduced-price lunch shares in the high 70’s and low 80’s.

In addition to reweighting its affordable housing goals in line with the suggestion above, the Met Council should reestablish its 1970-1986 fair share housing policy, known as Policy 13/39. Through Policy 13/39, the Council can use its authority and the withholding of a wide variety of federal and state funds to encourage affordable housing development in predominantly white suburbs.<sup>2</sup> This pro-integrative approach would allow the Met Council—as is required by the Fair Housing Act—to use its immense leverage to affirmatively further fair housing.

#### b. Economic Development Policies

Fully developed suburbs face economic development challenges very different from traditional developing areas. Their primary growth opportunities lie in redeveloping tracts that present very different, and more expensive, challenges than the traditional developments that

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<sup>1</sup> The analysis was performed for census tracts that are at least one-third inside the Met Council’s metropolitan urban services area (MUSA) and was part of the preparation for the Met Council’s Fair Housing Equity Assessment, to be completed in March, 2013. The results in Map 3 are preliminary and are subject to change.

<sup>2</sup> Myron Orfield, “Land Use and Housing Policies to Reduce Concentrated Poverty and Racial Segregation,” *Fordham Urban Law Journal*, vol. 33, no. 3 (2006), p. 920.

dominated their own planning in the past and present-day planning in outer suburbs. Abandoned industrial sites and aging apartment complexes present problems that invariably make them more expensive to develop than traditional greenfields.

Finding the means to foster this kind of growth is crucial to the economic health of developed suburbs and the region as a whole. Developed suburbs need good jobs and amenities in order to retain and attract the middle class households that support local housing markets and schools. Retaining a full continuum of housing types including market-rate middle and upper-middle income single family housing as well as affordable apartments is a critical part of economic development planning in these areas.

However, recent changes in state law have actually made it *more* difficult for developed areas to encourage redevelopment. For instance, the potential uses of the two most powerful tools available to developed areas for economic redevelopment programs—tax increment finance and eminent domain—have been narrowed dramatically in recent years. Financial aid from the state that might be used for these purposes—especially Local Government Aid—has also fallen rapidly.

Policies that could provide targeted relief to developed suburbs without straining the state budget are available. The tax increment finance law could be modified to make it easier to use for economic development purposes or the definition of “blight” could be broadened to include more areas in developed suburbs. Relaxing recently enacted restrictions on the use of eminent domain for economic development purposes is another possibility. Since greenfield developments rarely need these incentives to be competitive, the changes could be targeted to areas classified as “fully developed” by the Met Council to avoid overuse.

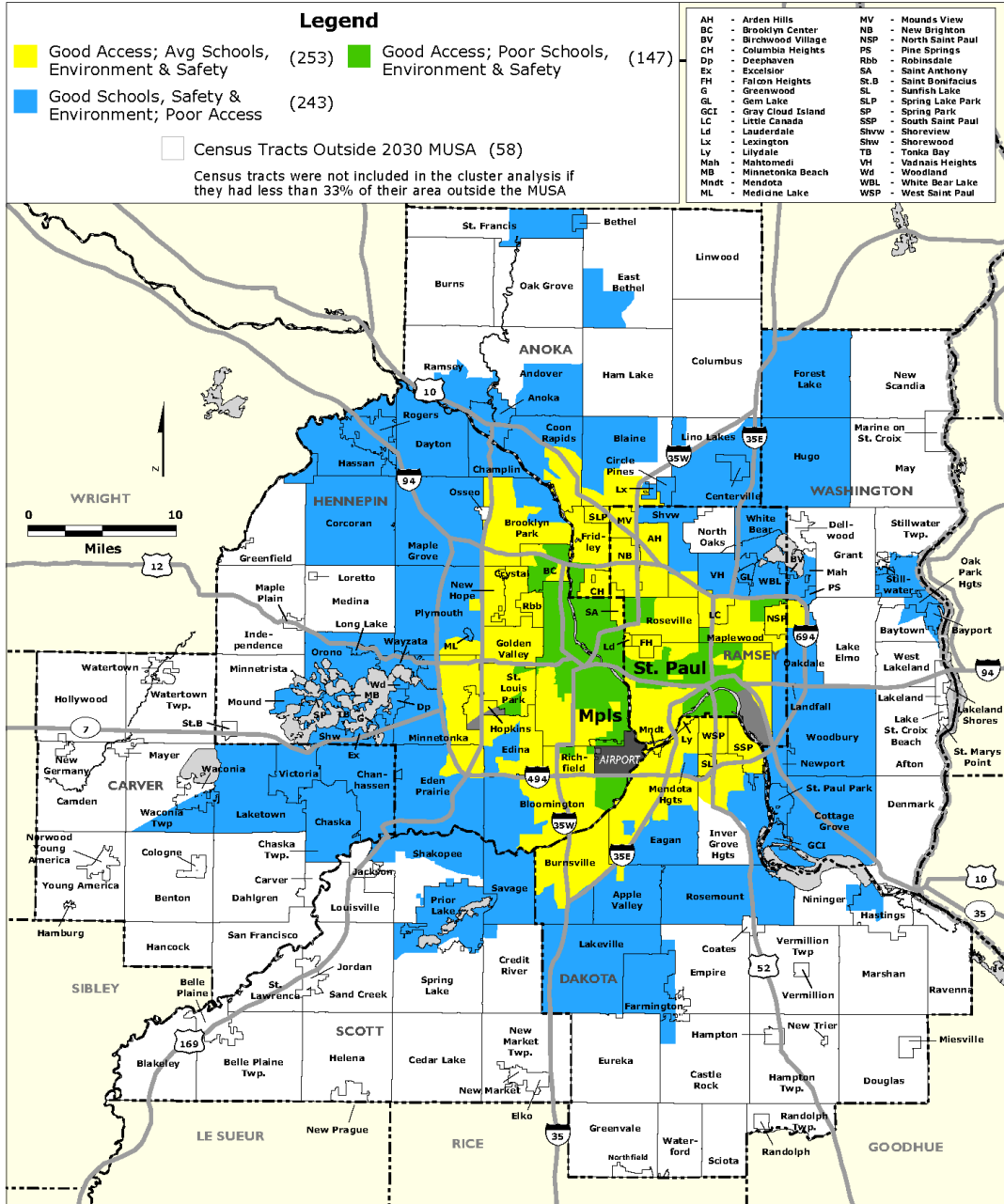
It is also important to ensure that the economic development funds that are already available are targeted to encourage the kind of sustainable redevelopment emphasized by Met Council economic development plans for decades. For instance, recent changes in the criteria for the Livable Communities Program increase the weight of affordable housing in funding decisions. It is imperative that developed areas receive proper credit for existing market-rate affordable housing (and not just subsidized units) when proposals are evaluated.

#### c. Mortgage Lending Discrimination

One of the biggest impediments to stability in the fully developed suburbs is mortgage lending discrimination. Lending institutions will often discriminate on the basis of race or location (“reverse-redlining”) in their provision of mortgages. This type of discrimination increases the fragility of fully developed suburbs, as a downturn in the market can lead to a wave of foreclosures. Additionally, reverse-redlining can lead borrowers with better credit to shy away from communities where they will be subjected to unfair mortgage terms; this increases the likelihood of segregation.

The Institute on Metropolitan Opportunity found that within the yellow portion of Map 3, 17% of the mortgages from 2004-06 were subprime and 17% of mortgage applicants were denied lending from 2008-10. The numbers in the blue portion were 13 and 14% respectively.

### Map 3: MINNEAPOLIS - SAINT PAUL REGION Three Cluster Groups In Census Tracts that are 33% or more inside MUSA



John Stark, Community Development Director of Richfield was under the impression that mortgage lending discrimination was taking place in his community: “the Latino community seemed to be the target of predatory lending practices.”

In the past, local and state governments have brought lawsuits on behalf of their citizens to enforce fair lending laws. This puts lending institutions on notice that they will be held accountable for illegal lending procedures. The Met Council should study the extent to which banks are engaging in mortgage lending discrimination in the twin cities region and take appropriate action.

#### d. Steering

Another impediment to stable integration is “steering” by real estate agents. Steering occurs when potential buyers are shown certain houses and neighborhoods on the basis of race. This results in white families being shown houses in different neighborhoods than minority families. Real estate agents will often frighten home buyers about communities and give misinformation about falling home values. An example of this took place in Eden Prairie where a resident-realtor claimed that a recent pro-integrative school policy change was causing home prices to fall. This is despite the fact that Eden Prairie was experiencing a lesser decline in home prices than the rest of the metro area.

Steering works against stable integration in the suburbs by directing white residents away from their communities and increasing the likelihood they will “tip”. As Craig Waldron, City Administrator for Oakdale noted: “if [steering] is out there we need to do something about it, because it works [in opposition] with where we are trying to get with our communities.” “I can tell you that there is steering in Richfield, I think you could do a study and find it pretty easy,” argued Debbie Goettel, Mayor of Richfield. “Something needs to be done about it but it should reside at the Met Council or the State level.”

One of the best ways to document modern housing discrimination is through paired testing. To do this, researchers assemble a large group of paired white and non-white testers of the housing market. Without such paired testing, it is hard to detect, much less prove, such discrimination. The Met Council and local governments should undertake paired testing in order to establish the prevalence of racial steering in the fully developed suburbs.

Other States have taken legal action against real estate companies that have illegally “steered”. After conducting paired testing, the State of Minnesota and Met Council could determine if a lawsuit against particular real estate companies is appropriate. Short of that, the State and the Met Council should provide guidance and information to homebuyers to reduce the effectiveness of steering. In addition, the Met Council should engage with real estate companies and provide them with information to discourage the illegal practice.

#### d. Local Stable Integration Plans

Housing markets are regional, and housing discrimination operates on a regional scale. Hence, regional remedies to address housing discrimination are the most effective. Nevertheless, dozens of communities throughout the country have created effective local stable-integration

plans. Case studies illustrate the potential value of proactive, multifaceted strategies.<sup>3</sup> Such strategies can include:

- local fair-housing ordinances;
- public and private funding of pro-integrative home-loan and insurance-purchase programs;
- cooperative efforts with local school districts to ensure high-quality, stably integrated schools;
- community-safety programs in diverse neighborhoods;
- marketing efforts to encourage local chambers of commerce, rental property owners, and realtors to view diverse communities as potentially strong markets;
- public-relations campaigns to encourage positive media stories of community successes;
- financial support of pro-integrative community-based organizations; and
- supportive public forums to defuse racial misunderstanding and promote the value of integrated communities.<sup>4</sup>

The success of programs like these can be seen in stably integrated suburbs like Oak Park, IL and Shaker Heights, OH. In order to promote local stable integration plans the State of Minnesota and the Met Council should team up to provide technical assistance to communities. In addition, bonus integration funding could provide the incentive communities need to clear the upfront fixed-costs associated with enacting a stable integration plan. These bonuses could be efficient in the long term, as they promote stability, higher home values, and investment in the community.

e. Better Cooperation between Suburban School Districts

The fragmented nature of the Twin Cities' school system exacerbates the fragility of integration. Since the school districts are small, wealthier families are able to avoid integration by moving from integrated suburbs to all-white exurbs. They are able to do this while remaining within commuting distance of the Twin Cities central business district. This allows them to take advantage of the benefits of living in a major metropolitan area, while avoiding the racial and economic integration it entails.

In order to address this dynamic, the Met Council must think about stable integrated schools a goal of regional policy. Map 4 depicts the current state of elementary schools in the Twin Cities region. Most of the fully developed suburbs are integrated, while some (Maplewood, Richfield, Brooklyn Park) are now mostly segregated.

Research suggests that school segregation often precedes and leads to neighborhood segregation. However, the Institute on Metropolitan Opportunity has found that regional stable integration plans can increase the likelihood that schools and communities remain integrated.

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<sup>3</sup> Philip Nyden et al., "The Emergence of Stable Racially and Ethnically Diverse Communities: A Case Study of Nine U.S. Cities," *Housing Policy Debate* 8 (1997): 491, 512.

<sup>4</sup> *Ibid.*, 523-25.

This finding suggests that “white flight” may not reflect adversity to stable integration, but rather fear of “tipping” and segregation.

“We have lost a lot of wealth—white people left Brooklyn park . . . its impacted our buying power, our retail, our housing values are consistently a little less than the rest of the metropolitan area,” described Jason Aarsvold, Brooklyn Park’s Director of Community Development. “Its created a certain fragility within our community.” Tom Harmening (City Manager, St. Louis Park) summed up the way white flight adds stress to his community: “families will move out to the [outer suburbs] . . . we need those families in our community to make sure the enrollment at our school district remains stable, and funding remains stable as well . . . that’s a real challenge for us as well.”

By adjusting policies to be pro-integrative, the Met Council can help the fully developed suburbs remain stable communities of opportunity. This support and commitment will bolster the confidence of residents and businesses that these communities are not about to “tip”, discouraging white flight and disinvestment.

### Section III - Conclusion

Over the past 30 years, the fully developed suburbs have become more diverse. These communities encourage and support diversity and are excited about the chance to become stable, integrated places of opportunity for all residents. However, racial patterns in other metros reveal the dynamic nature of racial change and the fragility of most integrated communities. Based on this experience, school and municipal administrators and elected officials are coming together to encourage the Met Council and the state of Minnesota to adopt policies that will help them support stable integration in their communities.

These policies must be based around the realization that the current affordable housing policies are not working. They are increasing fragility and are pro-segregative. Using the cluster analysis provided in Map 3 as a guideline, the Met Council and the State of Minnesota should use their powers to redirect affordable housing units towards the areas where they will be most beneficial. To complement this housing policy, the Met Council and the State of Minnesota should crack down on illegal real estate and mortgage lending practices, while using incentives to encourage local integration plans.

**Map 4: MINNEAPOLIS-SAINT PAUL REGION:**  
**Percentage Non-Asian Minority Elementary Students by School, 2008**

