THE MN CHALLENGE
To Lower the Cost of Affordable Housing

BEST PRACTICES: ACHIEVING A FULL RANGE OF HOUSING CHOICES.

University of Minnesota Center for Urban and Regional Affairs;
Housing Justice Center (formerly, Housing Preservation Project); Becker Consulting
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Enterprise
THE McKNIGHT FOUNDATION
ULI Minnesota
Regional Council of Mayors
Minnesota Housing Finance Agency

The MN Challenge to Lower the Cost of Affordable Housing is an ideas competition. Its goal is to be a catalyst for innovative problem-solving, bringing together teams of the most knowledgeable housing professionals to propose ideas that could reduce the cost of creating or preserving affordable housing. This report is one of several products sharing ideas that can advance the mix of housing choices available in communities throughout MN.

All photos in this document are of existing affordable housing complexes in Minnesota including exteriors, homes and common areas.

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II. EXECUTIVE SUMMARY

In 2014, Minnesota Housing, the McKnight Foundation, ULI Minnesota/the Regional Council of Mayors, and Enterprise Community Partners sponsored Minnesota Challenge, an "idea competition" to solicit research proposals focused on reducing the cost of producing new affordable multifamily units. The University of Minnesota Center for Urban and Regional Affairs (CURA), the Housing Justice Center (formerly the Housing Preservation Project), and Becker Consulting submitted a proposal centered on how local government practices and policies affected the cost of new development, which was selected as the winning proposal. The resulting extensive research had now led to this report.[1]

Very large numbers of working families in the metro area cannot afford housing. Affordable housing for these families is necessary for balanced communities and the economic well being of hundreds of thousands of households in the region. But available resources are insufficient to address the housing needs of new lower income households.

If the per unit cost for new developments can be reduced, the per unit development subsidy from funders can be correspondingly reduced, freeing up those subsidies for additional units and significantly improving the region's ability to meet housing needs. While this report is focused largely on cost reduction per se, it also addresses additional means of reducing the pressure on federal and state subsidies by further engaging the resources of the private sector and local governments where feasible.

The potential for savings is significant.

The good news is that there are multiple areas where local government practices can reduce costs and stretch subsidies, and where there are real opportunities for improvement, by the broader adoption of a series of best practices across the region. And these cost reduction opportunities are quite significant.

Application of readily available regulatory policies and investment of a reasonable level of local resources in a local project could free up enough subsidy resources to fund one additional unit for every three to six units developed in the local project.

The report identifies eleven areas where improvements in local practices can be made. It is important to note that these changes would not require sacrifices in construction quality or durability, an area where cost reductions usually do not make sense. It is also important to note that a number of communities currently employ many of these practices; the point is to spread these best practices as widely across the Region as possible, so they can have maximum impact.

There are multiple opportunities to spread better practices.

Highlighted below are eleven areas where there is room for improvement on local city practices.

[1] What this report does not cover is the multiple other factors besides local government practices that affect the cost of producing new affordable housing. Nor does the report cover the effect of local government practices on preservation of affordable housing, or on affordable home ownership.

Supporting appropriate density. The single area with the largest impact on cost is the failure of cities to support the most appropriate and cost effective density and scale of affordable housing projects. The too frequent tendency of cities to downsize the scale and size of projects forces the project's fixed costs to be spread across fewer units, often dramatically increasing costs. Several cities have been quite successful, however, in resisting this tendency.

Contributing local financial resources. There are a variety of financial resources available to local governments, which not only help fill the subsidy gap but which also allow those proposals to score better in the competition for state and federal resources, including tax increment, real estate tax reduction, general obligation or revenue bonds, and use of levy authority. The extent of those local contributions currently vary widely, and include in some cases underutilized sources that don't necessarily cost local governments much.

Site identification and acquisition. Finding and acquiring sites for new developments is one of the most difficult, time consuming and expensive tasks developers undertake. A number of cities have been quite proactive in easing these burdens, from identifying appropriate sites to zoning sufficient appropriate land, making city owned land available, and even acquiring sites for affordable developers, sometimes at reduced or no cost.

Reduced parking requirements. The considerable expense of structured parking, combined with the growing feasibility of reduced car dependence in many circumstances, has engendered considerable interest in reducing the level of parking cities require be incorporated in new developments. While the reduction in city parking requirements does not necessarily always lead to fewer parking spaces (the developer and the lender will have their own views on the parking needed), there are now many examples of local government creativity in this area, with significant savings resulting.

Fee reductions and waivers. Local fees, which vary widely in amount, can easily add $20,000-$30,000 in costs per unit. Not only do the total fees per unit vary widely by city, but the practice of waiving some or all of those fees for affordable developments also varies widely.

Streamlined administrative processes. Delays in the project approval process can be quite expensive when those delays are lengthy. Although the delays are not always the fault of the city's process, there are frequent developer complaints about city processes. There are a number of good ideas employed to minimize these delays on the local government end.

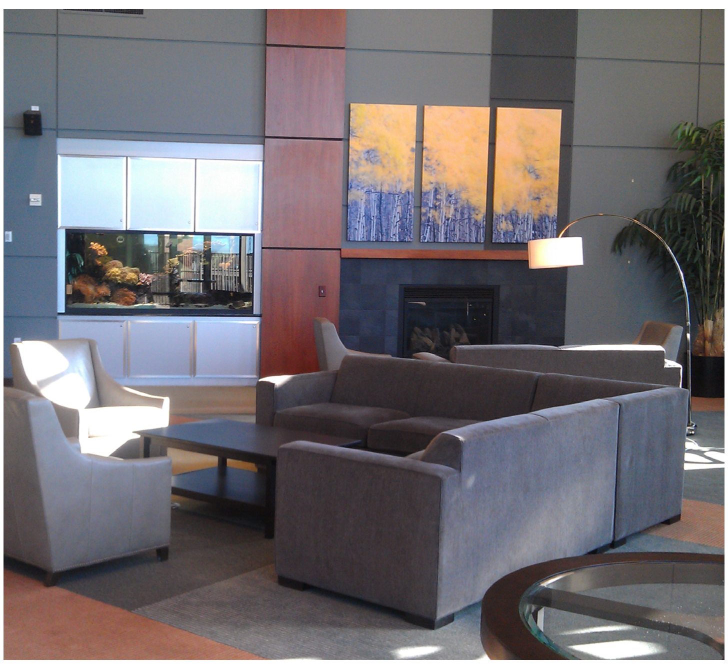
Material, site and design requirements. While city requirements regarding materials and design can add costs, most developers see the value in these requirements. One area where there may be potential for modest cost reductions is in the design of smaller, more efficient units, where city flexibility can remove one barrier to new approaches. It's not clear that this approach is desirable for households with children.

Manufactured and modular housing. Some interesting work is being done exploring the feasibility of creating new manufactured home communities, which could potentially lead to new affordable units at a fraction of the cost of stick-built units or apartments. Many communities still attach a stigma to these communities, however, so if feasible models can be developed, cities will need to be open to these new communities.

Openness to all affordable developments. Cities frequently voice a preference for mixed income housing, which can be quite challenging when the developer tries to match affordable financing with market rate financing. Occasionally this preference for mixed income can spill over into outright opposition to all affordable projects, based on a fear of concentrating poverty. Particularly in affluent suburban communities, this fear is both misplaced and contrary to the experience many cities have had with all affordable tax credit developments.

Inclusionary Housing/Mixed Income policies. Inclusionary housing (IH) policies, also called mixed income policies, are getting considerable attention locally these days as housing markets grow stronger, making these policies more feasible. IH policies are in fact probably the most useful tool to create significant new affordability without using the usual federal and state subsidies. A number of suburban cities have used various forms of IH with success, and new policies have recently been adopted in two suburban cities. While these policies may not be feasible in all cities, there are a number of cities where this approach does have promise, and there are others where improvements in current IH policies may make sense. One outcome of this project to date has been the development of a relationship with Cornerstone Partnership, a national consultant on IH policies, which has been providing assistance to a number of metro cities so far.

Addressing Community Opposition. Coping with community opposition to new affordable housing proposals can be particularly challenging for local governments, even when they are supportive of the proposals. In some cases, this opposition can lead to rejection of the proposal altogether, or it can lead to substantial delays, or it can lead to reduced project size or costly add-ons that drive up cost. While these adverse results continue to surface in the Region every year, fortunately a number of cities have developed very effective approaches to generating community support and minimizing or neutralizing opposition.



Recommendations on how to get best practices more widely employed.

This is a good time for cities to be considering these issues. Metro area cities are beginning the process to plan for comprehensive plan updates due in 2018, which will include new housing elements which incorporate local plans, policies and programs to meet affordable housing production goals. To assist cities in updating these plans, the Metropolitan Council is currently developing an updated Local Planning Handbook which provides guidance to cities on all aspects of comprehensive plan updates, including affordable housing planning. The best practices referred to above are a natural fit to include in the Local Planning Handbook and we anticipate the Metropolitan Council will be reviewing this report with an eye to incorporating these practices. This report will also be used to collaborate with ULI Minnesota and the Regional Council of Mayors to update and expand the Housing Policy Tool Box as an additional “how to” resource for cities. This work will also inform affordable housing planning along transit corridors such as the Southwest LRT Corridor, and federal “New Starts” applications which now include a focus on local affordable housing efforts.

Finally, what has become clear in the course of this work is the need that a number of cities have for technical assistance with the issue of affordable housing development. This is particularly the case for many smaller communities on the fringe of the metro area who have been assigned large affordable housing goals based upon future growth projections, but who have limited staffs and little or no experience with developing affordable housing.

III. INTRODUCTION

This study of best local government practices to reduce the cost of affordable multifamily rental housing was funded by the Minnesota Housing Finance Agency and the McKnight Foundation as the result of the Minnesota Challenge competition that was also sponsored by ULI Minnesota/Regional Council of Mayors and Enterprise Community Partners, Inc. The goal of the Challenge was to generate ideas that would reduce the costs of rental housing and give the state and local communities additional options for providing a full range of housing choices for low and moderate income residents. We hope that this study will particularly be useful to city policy makers and development staff and to affordable housing advocates.

The description of best practices was developed from a survey of national literature[2] and from interviews with 22 developers and housing/development/design professionals and with planning or development staff from 17 metro area cities and counties. An Advisory Board of housing professionals provided insights and feedback.[3] We believe this sample gave us a good sense of what metro cities are doing well, but we will obviously have missed many good examples.

The study was selected for funding as the result of a competition for ideas to reduce the cost of new, multifamily rental housing. As a result, we have not looked at rehabilitation or preservation of existing housing or at policies that apply exclusively to home ownership.[4] We have, however, expanded the cost reduction topic somewhat in two ways. We have added use of local financial resources, based on the observations of many who we interviewed that this is an important local policy which expands the total subsidy available and thus the amount of affordable housing produced in the region. We have also added a discussion of inclusionary housing policies, which clearly tie cost reduction policies to the production of affordable housing and which also present the potential to produce affordable housing in a greater variety of locations and in mixed income contexts. These policies may also, to some extent, require developers to employ some of their own resources to assure affordability, in exchange for public benefits such as access to transit and other public services and ability to increase density. The common denominator here are strategies which allow available resources to be stretched as far as possible.

The most important lesson from this research is that local policies that affect cost play an important role in determining whether it's feasible to build affordable housing locally and in the amount of affordable housing that can be built throughout the region. We have reviewed national best practices, and found, for the most part, that they are being employed in at least some metro area cities. But much more widespread adoption of these practices is necessary if we are to limit costs and thus spread resources more widely, as well as make real progress addressing the affordable housing need over the next 15 years.

The best practices summarized below should be evaluated by cities and funding partners as a potential tool box of financial and regulatory resources available to assist affordable projects.

[2] See Appendix 1.
[3] See list in Appendix 2.
[4] It should also be noted that local government practices are just one determinant of housing production costs. Construction costs, state building and energy codes, and inefficiencies associated with affordable housing finance, for example, also contribute but are not the subject of this study.

No one tool is likely to make a project affordable.[5] When we have discussed this project, many people reacted by assuming the focus would be on site and construction materials requirements. While those topics are important, for reasons discussed below we have focused our research on other areas which provide clear opportunities for substantial cost savings while maintaining quality and durability.

The Region's need for affordable housing.

Housing policies generally define low income housing as that affordable, at 30% of income, to households whose incomes are no more than 80% of the area median income (AMI), adjusted for household size as calculated by HUD. For the Metropolitan area in 2015, 80% of AMI is $65,800 for a family of four. The Metropolitan Council recently estimated that throughout the region, there were approximately 266,000 such households paying more than 30% of income for housing-the federal standard for housing affordability. Virtually every metro area community had substantial numbers of such households. People in this income range include accountants, assembly workers, police officers, interior designers, bus drivers, home health aides, retail sales workers, and a host of others necessary to virtually every city's economy.[6] Half of the jobs in the metro area pay less than what is needed to afford the average 2-bedroom apartment renting for $1,083/month. Having housing affordable to a variety of income levels, including housing affordable to the vast number of low income working families, is necessary for a balanced, economically resilient, community.

The Council has also estimated that more than 5,000 new affordable units need to be produced annually during this decade just to meet the housing needs of new lower income households,[7] but through 2013, fewer than 1,000 affordable units have been produced annually, only 9% of the total new units. It is possible to improve this performance significantly by working together and applying the most effective regulatory and financial tools and strategies. Over the last 20 years, most cities in the metro area have fallen well short of producing the new affordable housing needed to keep up with a growing regional demand. But a few have done very well. The few that performed well did so by using many of the tools described below to invest local resources and adopt policies and regulatory flexibility to reduce the cost of affordable units produced in their jurisdictions. By doing so, they met their own need to provide a full range of housing choices and at the same time significantly expanded the total resources available to produce affordable housing in the region. If the best practices described below were widely adopted, the region could much more closely meet the need for new affordable housing.

The importance of local regulatory flexibility and investment of local resources.

The Medina Woods townhouse development described in a case study in Appendix 3 provides an illustration of the magnitude of the cost savings associated with several of the best practices discussed below.

[5] But some may well be sufficient individually to make10%-20% of the units in an otherwise market rate development affordable as part of a city's inclusionary housing (IH) program. See discussion on inclusionary housing, below.
[6] See Family Housing Fund report at http://www.fhfund.org/wp-content/uploads/2014/10/Working_Doesnt_Pay_for_Home_H-T_May-2014.pdf; Metropolitan Council Housing Policy Plan at 15-17 at: http://www.metrocouncil.org/METC/files/54/54ec40bb-d6ce-45bb-a571-ee00326ccd20.pdf
[7] With incomes no greater than 60% of the region's median income (currently $68,772), adjusted for household size.

The zoning for the project permitted 7 du/acres or 26 units. The developer initially sought approval for a planned unit development (PUD) for a 32 unit project (8.6 du/acre). In response to resident opposition, City Council support evaporated, the developer withdrew its request and the project was developed with 26 units under the existing zoning and without the promised fee waiver. The submission by the developer of detailed project cost estimates before and after City support collapsed permitted MHFA to compare costs/unit with and without the PUD and fee waivers (see MHFA report in Appendix 3). An excerpt below illustrates several important points:

From MHFA table re: Medina Woods

	COST/UNIT	COST	COST/UNIT	COST
UNITS	32		26	
ARCHITECT	5,706	182,592	9,556	248,456
SAC/WAC	2,435	77,920	11,085	288,210
SITE CONSTRUCTION	28,813	954,016	36,692	952,992
AQUISITION	15,625	500,000	19,231	500,006

These numbers can be used to compare a hypothetical 26 unit project without city fee waivers or investments with a 32 unit project supported by the city with fee waivers and investment of city resources such as pay-as-you-go tax increment assistance. Many project costs were essentially fixed costs, and independent of the number of units built, so increasing density decreases the cost of these per unit:

- Architect. The example below uses the cost for the 32 unit building for developing both the 26- and 32-units projects. The later increase for the smaller project was due to required re-drafting. Had the original drafting been done for a 26 unit project, it certainly wouldn't have cost any more, and probably wouldn't have cost significantly less.

- SAC/WAC fees. Service and water access charges were to be largely waived in the original project; the city reversed itself on this. We assume waiver of the full fee in the 32 unit project.

- The construction costs related to site improvements (roads, curbs, play equipment, landscaping) are largely unaffected by the size of the project.

- In the Medina case, the cost of site acquisition was unaffected by the number of units developed. The price was probably based on the permitted zoning, or about $19,000/du.

- Other fixed costs: legal, survey, environmental, appraisal, marketing, audit will not change with project size. Based on other project financial statements, we assume, probably conservatively, at least $100,000 per project.

The table below compares a 26 unit project with no fee waiver to a 32 unit project, permitted by a PUD with 23% density increase.

UNITS	26	32
DU/ACRE	7	8.6
ARCHITECT	183,000	183,000
SAC/WAC	288,000	–
LEGAL/OTHER FIXED	100,000	100,000
SITE CONSTRUCTION	950,000	950,000
LAND	500,000	500,000
TOTAL COSTS OF THESE COSTS	2,021,000	1,733,000
PER UNIT	77,731	54,156
COSTS SAVED PER UNIT		23,575

The combination of increased density and fee waiver results in cost reductions amounting to $23,575/unit. The City also committed $189,736 in CDBG funds to the project. This amounts to about $6,000/unit for the 32 unit project, bringing total benefits from potential city investment and regulatory flexibility to about $30,000/unit. In the discussion of tax increment financing below, we calculate that pay-as-you-go TIF assistance, should be worth between $6,000 and $13,000 per unit (the larger number in Hennepin County where Medina is located), so up to about $7,000/unit more than the CDBG funds in the Medina project.

The potential effect of local policies on metro-wide affordable housing production.

The Metropolitan Council recently concluded that it took about $180,000 in tax credit equity and additional subsidy funds to produce a typical tax credit unit. So using the above hypothetical, a combination of regulatory flexibility saving $24,000/unit in development costs and $6,000 in TIF or other local funds invested in 6 units saves enough tax credit equity and other available subsidy sources to develop another whole unit elsewhere in the metro area.
This effect can potentially be much greater:

- The density increase involved in the Medina project was only 23%. If the issue had been whether to permit a 3-story or a 4-story building, as was the case with the Creekside Commons project in Minneapolis (see case study in Appendix 3) the density increase would have been 33% and the cost savings correspondingly greater. The difference in cost in the Creekside Commons case amounted to $43,400/du.

- If the project were also located near a transit station with underground parking, a reduction in required parking from 1.5:1 to 1:1 would save an additional $5,000/unit (construction costs of $15,000/stall-probably a low estimate- reduced by 33%).

- TIF could add an additional $13,000/du.

- **This level of local investment and regulatory flexibility would permit one additional affordable unit to be produced in the region for every three local units produced.** (180,000/60,400 = 3). Note that much of this local "contribution" in this case is in the form of regulatory flexibility rather than local financial investment.

IIII. DISCUSSION OF BEST PRACTICE

A. PROJECT DENSITY AND SCALE

A number of interviewees cited density as the area with the potential for the largest impact on housing costs. It is probably the single most important issue for cities to get right. Yet it is almost the rule, rather than the exception, that when any multifamily residential developments are proposed, the combination of neighborhood opposition and concerns of elected officials result in projects which, if they do get approved, end up smaller, shorter, with fewer units, and less density. The result of such changes is significantly increased costs per unit and therefore increased need for subsidies to keep the rents affordable.

While many high density zones don't have an upper limit, a need for a conditional use permit or site plan approval or financial assistance often provides the city leverage to get reduced density anyway. In addition many sites ideal for multifamily affordable housing are in a "moderate" or "medium" density zone with a density limit that is far too low. In the recent Medina townhouse case (see Case studies Appendix 3) the maximum permitted density in the medium density zone was only 7 du/acre whereas architects typically think of townhouse densities as 12-20 du/acre. See the sections on administrative delays and resident opposition for more discussion of this issue.

Relevance to the Cost of Affordable Housing

There are several reasons for the importance of project density and scale:

Construction cost savings. First, generally speaking and until building heights are reached that do not permit wood frame construction, the greater the density, the lower the cost per unit. Construction of townhouses is less expensive per unit than construction of single family homes and duplexes. Less expensive interior walls replace exterior walls. Construction of 3- or 4-story wood frame buildings, in turn, are significantly less expensive per unit than townhouses. There is less expensive roof construction and exterior wall construction per unit and plumbing can be stacked. For the same reason, the cost per unit of a four story building is generally less than for a three story building with the same footprint. These higher density developments also permit economies of scale for all of the construction trades.

Spreading fixed costs over more units. Second, the larger a project with a given footprint, the more units over which fixed costs are spread. Design, site construction, legal, environmental, and audit costs are very significant and don't vary substantially with project size. Once land is purchased, it is of course a fixed cost, and a very substantial one, and variations in permitted height and density can spread this cost over more, or fewer, units.

Building height, construction costs, and project density are closely interrelated. Building codes limit wood frame construction to five stories. It is possible to achieve six stories by building five stories of wood frame construction above a first story built with more expensive techniques. Depending on the magnitude of fixed costs, it may be more cost effective to get the extra story even though the ground floor requires more expensive construction.[8]

[8] There are additional complications. Wood frame buildings above three stories require more expensive wood and may be subject to additional energy code requirements. Also, wood shrinks and bricks do not, so taller wood frame buildings will not have brick facades, often desired by cities, at least not on the upper floors. Minneapolis planners indicate that recent development activity suggests that, at least in the area around the University of Minnesota in Minneapolis, the most cost effective building type is five stories of wood frame above a concrete ground floor, as that is how virtually all of the many market rate developments in the area are designed. A recent Seattle Study claims the most cost effective construction there is five wood frame stories over two of concrete and suggested adjusting height limits to allow more of this construction. Seattle Housing Affordability and Livability Agenda, http://murray.seattle.gov/wp-content/uploads/2015/07/HALA_Report_2015.pdf, at page 23.

As one illustration of the order of magnitude of these cost differences, HUD produces Total Development Cost (TDC) limits setting the maximum federal funds that can be used to develop public housing. HUD averages the construction cost for each metro area by bedroom (BR) size and structure type for construction of "average" quality from R.S. Means cost index and for construction of "good" quality from the Marshal & Swift index. HUD then estimates additional development costs based on these construction numbers. For 2014 for this metro area, the TDC limits are as follows for 2 BR units[9]:

Detached, semi-detached:	**262,240**
Row House	**249,213**
Walk-up	**230,471**
Elevator	**251,615**

Using HUD's methodology, modest cost townhouse units cost about $13,000 less per unit to develop than single family or semi-detached units and 3-or 4-story buildings about $32,000 less.[10] Note the substantial increase from 4 story "walk-up" buildings to taller "elevator" buildings where more costly construction methods are required.[11]

Project scale. Developer Ron Clark has worked on suburban low income housing tax credit projects that are significantly larger than usual for such projects (60-70 units). He makes two additional points about project scale. First, these projects are of sufficient size to allow on-site staff and make management more economically efficient. Second, the cost savings can make feasible design features which increase project quality and attractiveness, elements that are important in achieving community acceptance – particularly in cities with little or no experience with income- and rent-limited housing.

Permitting densities sufficient for 4- to 5-story buildings with wood frame construction allows the most cost efficient construction.[12] The average density for affordable housing projects built in the metro area between 2003 and 2013 was 40 du/acre.[13] While the Council's housing policy requires sufficient land developable at a minimum density of either 8 du/acre to meet all affordable needs or 12 du/acre to meet the need for units affordable at 50% AMI or below, 91% of the affordable projects were at densities greater than 8 du/acre and 81% at densities greater than 12 du/acre. Many well designed projects are at or even above 60 du/acre.

[9] http://portal.hud.gov/hudportal/documents/huddoc?id=2013tdcs.pdf
[10] These HUD costs are presented to provide a sense of the relative magnitude of the cost differences of these construction types. They are probably not a particularly useful guide to likely development costs of any particular project.
[11] The "elevator" category refers to taller buildings rather than any building with an elevator; walkup buildings will typically have elevators.
[12] Or, 4 wood frame stories above a ground floor with more expensive construction.
[13] Metropolitan Council data.

Some good metro area examples are:

Gallery Flats, Hopkins, 83 units/acre (20% affordable): and the Excelsior and Grand development in St. Louis Park, 75 units/acre.

Townhouse densities are typically characterized as about 12-20 du/acre. While less cost efficient than 4 story buildings, they are probably a better design for families with children. There are local examples of mixing the two, with 2-story townhouse units on the ground floor with an additional floor of traditional double-loaded corridor units.

Density at this scale permits the most cost efficient building techniques and substantially reduces fixed costs per unit. It is critical that public officials permit densities allowing cost efficient construction in appropriate locations in the comprehensive plan and zoning policies. Density, per se, should not be used as an excuse to reject or demand substantial downsizing of projects. Rather it is important to develop policies to encourage good design in such projects and to learn to effectively address the public concerns that are often expressed about project density. The City of Carver's recent experience in approving a larger-than-average tax credit project in the face of strong NIMBY opposition provides a good example of effective local government response to this issue.

Regional Policy Recommendations

The Land Use Planning Act requires that metro cities' comprehensive plans include "use of official controls and land use planning to promote the availability of land for the development of low and moderate income housing."[14] The Metropolitan Council's new Housing Policy Plan would require cities to set aside land at minimum densities necessary to accommodate the need for affordable housing assigned by the Council. The minimum is either 8 du/acre or 12 du/acre for the need at 50% or less of Area Median Income (AMI) and 6 du/acre for the need for units affordable between 50% and 80% of AMI.[15]

The same section of the Plan notes that the average affordable project developed over the previous decade was at 40 du/acre. Many city's comprehensive plans and zoning ordinances do not permit densities at this scale or severely limit areas where these densities are permitted. It is important that the Council recognize the serious limitations of the Housing Policy Plan's minimum densities in the Local Planning Handbook that is being developed to guide comprehensive plan updates due in 2018 and to recommend much higher minimum densities that can actually accommodate the production of cost efficient affordable units.

Municipal Practices

In addition to zoning at appropriate densities, cities need to permit development allowable by zoning district. Costs can quickly escalate when cities use land use leverage like site plan or conditional use permit approvals to force owners to downscale their projects below maximum density permitted by the comprehensive plan or zoning. Land prices are often based on the maximum permitted use, and downsizing forces the developer to spread the land cost, and other fixed costs, over fewer units, increasing the cost of such units. In addition, such forced revisions can cause additional costs due to delays and to the cost of redesigning the project.

[14] Minn. Stat. Section 473.859 Subd.2(c).

[15] Note that it is neither likely nor desirable that all of the higher density acreage would actually be occupied by affordable housing, and these densities do not permit the most cost-efficient housing, so the minimums are inevitably too low.

In the case of Dominium's proposed Medina Woods Townhomes, per unit project costs escalated substantially due to increased construction pricing due to the delay, costs of redesign, and increased fixed costs per unit when NIMBY reaction by residents caused the developer to withdraw an application for a PUD which would have allowed 32 units and instead rely on compliance with the zoning maximum which allowed only 26.[16]

As was the case with the Creekside Commons project in Minneapolis, profiled in Appendix 3, resident concerns often also directly address a project's height rather than density. Requiring the developer to change from 4 stories to 3 of course dramatically lowered project density and increased fixed costs, including land cost, substantially.

Residents' stated opposition based on a project's scale, density, or height may be used as a proxy for opposition to lower income residents. But that certainly is not always the case. Recently residents opposed a proposed 6 story market rate development near Ridgedale in Minnetonka. One opponent was quoted:

"I like the idea that they want to revitalize the area. But what I don't want to see is hundreds and thousands of people in an urban setting, because this is the suburbs. If I wanted to live next to high-rises, I would have moved to Minneapolis." [17]

Ultimately the Ridgedale project was approved by the city with only minor changes. Research by Smart Growth America indicates that there are good economic reasons why city officials should favor higher densities: the public costs per person of infrastructure, school transportation, fire protection, and solid waste collection are less the more dense the housing units.[18]

Resident opposition generally is addressed below, but interviews with city officials indicated that good design, acceptable to the community, is critical in getting official approval of high density projects. Resident opposition to an apartment building in the Savage Village Commons project was substantially reduced by building a buffer of townhouses between the apartment and adjacent single family homes.

Part of the challenge for cities is to educate their local citizenry on the advantages of more complex, intense development in areas where that's appropriate. One interesting such strategy has surfaced in Minneapolis. The established neighborhood association in the St. Anthony area of Northeast Minneapolis has become a strong advocate for seeking more dense development, in one case even rejecting an apartment tower as being insufficiently dense. The local city councilmember has attributed the strong stance taken by this group in part to his own efforts to recruit citizens into the leadership of the organization who believe in the advantages of this kind of development. This suggests that efforts to more proactively recruit and involve citizens who believe in this kind of development may be a highly useful strategy.

Support Density bonuses

Density bonuses are an effective policy tool that cities can use to reduce the per unit cost of affordable projects. The bonus for the Village Commons project in Savage was from 14 du/acre (a townhouse density) to 20 du/acre (a 43% bonus) permitting a 3 story building. Such a bonus can provide for more cost-efficient construction and spread fixed project costs over more units. The Forest Lake ordinance permitting a 15% density bonus (as well as reduced site and parking requirements and fee reductions or reimbursements) for the inclusion of affordable units is included in Appendix 4.

[16] See, MHFA Board Report in Appendix 3.
[17] StarTribune, October 8, 2014.
[18] See http://www.smartgrowthamerica.org/documents/fiscal-implications-of-development-patterns.pdf

Additionally, these bonuses can provide an incentive for market rate projects to include an affordable component. There were particularly interesting, and similar, outcomes of density bonus policies in Woodbury and Maple Grove. Maple Grove provided a 40 unit density bonus to Rottlund Homes for a 400 unit ownership development in exchange for 10% affordable units. Rottlund conveyed 3.5 acres to Duffy development to do a 40 unit affordable project, and Rottlund then realized the benefits of the density bonus by building the original 400 units on the remaining, smaller, acreage, and spreading fixed costs over more units. Similarly, a large developer in Woodbury took advantage of a density bonus[19] by conveying a parcel on the site to the City. After an RFP the City conveyed the site to CommonBond for the 45 unit City Walk project. Although the master developer in the City Walk case did convey the land for $1.00 and cover park dedication fees and other charges, low income housing tax credits were still necessary to make the affordable units feasible. The primary role of the density bonus was to induce inclusion of affordable units into a large market rate development.

Finally, density bonuses can at least partially offset costs to developers of providing affordable units in response to an inclusionary housing requirement. If bonus densities are permitted, then land costs (which may run from $20,000 to $30,000 per unit) and other fixed costs are spread over more units, lowering the development cost per unit. Or, viewed another way, the bonus units are, in effect, free from land and other fixed costs.

Effective density bonuses are also limited, of course, to situations where the developer seeks to build at densities greater than what is available as of right. If density is increased as of right, the price of land will also tend to increase to reflect the more intensive permitted use so direct land cost savings are unlikely. And, of course, since developers have a right to the higher density, no bonus is possible. For cities that are considering up-zoning, it is critical that the potential for inclusionary housing policies be explored before the up-zoning occurs. This is an immediate concern for the Southwest Corridor cities, all of which are currently doing station area planning, generally with a focus on creating more intensive uses.

[19] See Woodbury density bonus policy Appendix 4.

B. LOCAL FINANCIAL RESOURCES

The main effect of providing local financial resources to a project that provides affordability is not to reduce development cost but to partially replace subsidy from the standard sources that are available on a metro-wide basis. The result of use of local financial resources is to permit more affordable units to be developed throughout the region. See the discussion on pages 3-4 above. They can also contribute to a project scoring well in the annual competition for low income housing tax credits. In addition, developers look to willingness to make local resources available as a signal that a city will be responsive to development proposals. Several of the developers and a financial expert interviewed indicated that, next to increasing permitted densities, putting local resources into affordable projects was the most important step cities could take.

Perhaps most importantly, contribution of local funds means more affordable housing produced in the metro area. Unfortunately, only a relatively small number of metro area affordable projects receive city and county funds. A 2013 Housing Link database of all of the publicly assisted affordable rental units in the metro area shows 61,726 affordable units in 1,521 projects, but only 9,506 units (only 13% of the total) in 197 projects with city or county funds invested; 8,217 units in 172 projects had city funds. An analysis by Metro Council staff of projects funded in response to MHFA's 2013 and 2014 RFPs indicated that a much higher percentage of these projects had local funds-68% had city funds and 86% had city or county funds. But with this improvement there was a substantial difference between the central cities and rest of the region. City and county funds amounted to 8% of total development costs in central city projects and only 4% in suburban projects. For the central cities, 86% of the projects had city funding, for the rest of the region, only 40%.

Summarized below are several particularly important points to make about the various financial resources which cities have available to help finance affordable housing:

- Developers and other experts interviewed indicated that the local financial resources discussed in this section are underutilized and could be employed much more effectively to assist in the production of affordable housing, thereby expanding the amount of affordable housing produced annually in the region.

- Provision of local resources will help local projects score well in the annual competition for 9% low income housing tax credit funds.

- In a survey of 10 affordable projects produced with local financial assistance, we found that only six had taken advantage of Section 4d, which allows affordable housing to be taxed at 60% of the rate paid by other multifamily housing. This could typically allow rents $40-$50/month lower.

- Many financial tools may come with relatively modest income or rent limits. Cities should negotiate for rent as well as income limits, and impose longer, and/or more stringent income and rent limits than those imposed as statutory minimums on projects to which they provide assistance. Relatively short terms for these limits inevitably result in a crisis when the terms expire, and the affordable resources disappear. Minnesota law generally permits terms of up to 30 years.[20]

[20] Minn. Stat. Section 500.20. This limit would not apply to projects subject to a long term land lease, in which the income and rent limits could have the same term as the lease. There are many local examples of such leases for 50 years or more.

- TIF pooling is the use of TIF outside of the TIF district. TIF pooling, especially using housing TIF districts, provides a source of affordable housing funding available city-wide.

- Some cities invest substantial amount of tax increment and other city resources into exclusively upper income housing.[21] Brooklyn Park, which appears not to have had a new income- and rent-limited multifamily unit added since 1992,[22] is now considering providing TIF assistance worth $7 million into a new luxury building, including $3 million of pooled TIF. This use of resources indicates the potential availability of untapped affordable resources. It also indicates that cities may unnecessarily forgo the opportunity to encourage market rate developers to include affordable units (See Inclusionary Housing below). In contrast, Minnetonka and St. Louis Park impose affordability requirements on TIF projects. See Appendix 4 for the St. Louis Park policy.

Tax Levy Authority. Minnesota Statutes Section 469.033 allows housing and redevelopment authorities (HRAs) to levy taxes up to .0185% of the estimated market value of the property in the area in which they are authorized to operate. Cities may also levy up to .01813 on behalf of their EDAs and Port Authorities. The levy funds are very flexible and may be used for any HRA purpose permitted by the statute. For instance, the Dakota County Community Development Agency was created with all of the powers of an HRA and makes use of its levy authority, in part to fund a Housing Trust Fund. Minnetonka uses the levy to provide home owner rehabilitation assistance. The levy authority is the most useful financial tool for cities to use to assist affordable housing next to tax increment, but many HRAs or cities do not take full advantage of this authority, or use it at all.

Tax Increment Financing (TIF). TIF financing is authorized by Minnesota Statutes Sections 469.174-469.1794. TIF funds are generated by the real estate taxes on the excess of market value within an area designated as a TIF district over the market value prior to establishment of the district. The rules for use of TIF established by the statute are quite complex and what follows is a very general summary of provisions related to housing. The statute permits a city to capture tax increment and use it for specified purposes for a period which varies with the type of district. It may be used for up to 25 years for a housing district.[23] In a housing district, the increment must be used for housing that meets income limits – for rental housing, these are the federal low income housing tax credit limits – 20% of the units affordable at 50% AMI or 40% affordable at 60% AMI. The income limits last, at a minimum, for the term of the district.

Tax increment may be used to repay a bond issue that is used to cover project development costs. More commonly, however, cities use "pay as you go" increment, which refunds to the developer the taxes collected in excess of those based on the value of the property prior to designation of the district. This provides a stream of revenue which the developer can use in financing the project, without relying on tenant rents. This allows higher debt at the same rent levels, and therefore less front-end subsidy is needed. The effect is to increase net operating income, available for debt service, without any increase in rents. The TIF doesn't lower project development costs, but it lowers the public funds necessary to cover those costs.

[21] While Housing TIF districts require an affordable component, other TIF districts allow use exclusively for other eligible uses like infrastructure, site remediation, or acquisition of blighted buildings.
[22] Analysis of data from Streams
[23] Minn. Stat. 469.176 subds. 1-1e.

To estimate the amount of the subsidy reduction that might be permitted by pay-as-you-go TIF, we looked at two tax credit projects, a 40 unit project in Maple Grove and a 45 unit project in Woodbury as examples of pay-as-you-go tax increment that might be generated by such projects. For our purposes, the only information needed is the amount of taxes generated by the project and a way of estimating how much is increment. The current taxes per unit are $1,316 for the Maple Grove property and $622 for the Woodbury property. The Hennepin County tax records are readily available on line and specified the land value for the Maple Grove project as 14% of the total. If the project was built on vacant land, the tax increment would then be at least 86% of the total tax.[24] In calculating the reduction in subsidy needed do to the TIF, we assumed: the same 86% of tax as increment for Woodbury; that the project's debt financing required 120% debt service coverage (so that the amount of extra income available for debt service is the tax rebate divided by 1.2); and 6%, 30 year financing. The extra debt permitted, and thus the needed subsidy reduction, was about $13,000/unit for the Maple Grove Property[25] and about $6,000/unit for the Woodbury property.

The statute permits "pooling" of a limited portion of TIF (typically 20%), for use outside the district in which it's generated.[26] These pooling rules are structured particularly to assist in the production of affordable housing. The pooling percent in non-Housing districts may be increased by ten percentage points if the increment is used to assist tax credit-eligible housing.[27] Housing districts do not have a limit on pooling. Increment generated from a housing district may be used to assist qualifying housing projects anywhere.[28] Chaska set up a housing TIF district to assist homebuyers in the initial phase of the Clover Field project. The district continues to generate increment which the City uses to fund its housing trust fund, which assists low income housing production in a variety of ways. Similarly, a city such as Minneapolis or St. Louis Park, with a current hot market for market rate rental projects, could include market rate projects in a housing district with at least one affordable project. The increment generated by the market rate projects could be used for the next 25 years throughout the city.

Over the last two years, Maplewood, Richfield, and Golden Valley have contributed a total of $3.9 million of TIF assistance to four tax credit projects. Forest Lake, Eden Prairie, and Minnetonka, as well as the central cities, have also used TIF to assist development of affordable housing.

Tax abatements. Cities may authorize real estate tax abatements to assist affordable housing developments.[29] The abatements reduce the cost of operating the project and the benefit may then be passed on to residents in the form of lower rents.[30] While its effects are similar to pay-as-you-go TIF, one difference is that other taxing entities besides the city are not involuntarily included, (and if they don't the abatement will be significantly lower) although they can volunteer. The abatement may be for a term of 15 years, or if political subdivisions in addition to the city decline to participate, for 20 years. Maple Grove has used an abatement to assist affordable housing.

[24] If built on vacant land, the base assessed value from which the increment is calculated would be based on the market value of the land at the time the district was established. If the land value had increased since then, the additional taxes generated from the increased land value would also be part of the increment.
[25] ($1,316 x .86)/1.2=$78.60. This pays for about $13,000 in debt at 6% amortized over 30 years.
[26] Minn. Stat. 469.1763 Subd. 2.
[27] Minn. Stat. 469.1763 Subd. 2(d).
[28] Minn. Stat. 469.1763 Subd. 2(b).
[29] Mnn. Stat. 469.1813.
[30] The abatement isn't legally required to pass on savings to residents, but presumably that is the only reason one would be authorized.

Section 4d. Minnesota Statutes Section 273.128 provides that rental units can get a 40% property tax break if at least 20% of the units have income limits of 60% AMI and rents are limited to 30% of 60% of AMI. Tax credit projects routinely take advantage of section 4d but it is also available if the limitations are imposed as part of local government financial assistance. Our preliminary survey described above suggests that large numbers of locally subsidized units are not taking advantage of 4d or were not structured so that the project could take advantage of 4d and are thus missing the opportunity to permit substantially lower rents as a result of their affordable housing investments. Use of 4d would not make sense in a project with a TIF supported bond sale. Use of 4d and pay-as-you-go TIF both effectively result in a reduction in property taxes due. It probably wouldn't make sense to use both, as one or the other would be most advantageous in any given case.

Housing Revenue bonds. Cities may issue tax exempt (and also taxable) bonds to finance affordable housing developments. The tax exemption resulted in a lower than market interest rate before the crash, although with the current very low interest rates, there is little, if any difference. In the case of revenue bonds, the bondholders must rely solely on the project, in much the same way that typical lenders do, to assure repayment, so these bonds do not impose a risk to the City.[31] To qualify for the tax exemption, there is a requirement that 20% of the housing units be affordable at 50% of AMI or 40% at 60% AMI for at least 15 years. While imposing identical income restrictions, the federal law does not impose any rent limits and state law imposes rent limits that are generally significantly less restrictive than the tax credit statute.[32] Cities should, nevertheless, impose at least the same rent restrictions as for low income tax credit units.

The federal Low Income Housing Tax Credit (LIHTC) program more or less automatically permits "4%" tax credits along with the revenue bonds, without going through the usual time consuming and highly competitive process for "9%" credits.[33] The 4% credits are applied only to the affordable units, and, depending on project size, may not always generate sufficient equity investment to offset the additional costs involved in obtaining equity investors in a project with only 20% affordable units. The combination might well be useful, however, in financing 100% affordable projects, like senior housing, that may not score well in MHFA's competition for 9% credits. The value of the 4% credits can be maximized by using the maximum permissible developer fee, which in turn maximizes the basis against which the credit percentage is applied. To be useful in actually reducing required subsidy, of course, part of the developer fee needs to be contributed back to the project.

The lower interest rate might make this a useful tool in producing mixed income housing, with at least 20% of the units affordable. Additional City financial assistance or regulatory flexibility might be necessary to make the 20% affordability work.

General Obligation bonds. Cities may issue bonds for certain purposes backed by the full faith and credit of the city. That means that the cities pledge to use their own revenues[34] to make up any shortfalls to bond holders. Cities or counties with good credit ratings can use a general obligation pledge to substantially reduce interest rates for housing loans. Glendale Place, a senior housing project in Savage was developed and is owned by the Scott County CDA. Savage and the County both made general obligation pledges to secure a favorable interest rate on the financing. The Dakota County CDA has also developed projects it owns using general obligation bonds.

[31] It's also possible for the developer to pledge revenue from other projects, to add to the security of the debt.
[32] Minn. Stat. Section 474A.047 requires that rents on 20% of the units not exceed the HUD fair market rents; these are generally higher than the rent limits for tax credits which are based on 50% or 60% of area median income. For a 2-BR unit, the 2015 metro area FMR is $996, while the highest permissible tax credit rent (for 60% AMI) is $871.
[33] The actual credit percentage floats with a federal index; current percentages are somewhat less than 4% and 9%.
[34] Own-revenues can include, if necessary, additional tax revenues.

Local Rent Subsidies. Producing housing affordable to households at or below 30% of area median income almost necessarily involves rent subsidies as well as capital subsidies. While project-basing housing choice vouchers may allow some level of production of such units, to do so on the needed scale will likely require state and local government to develop alternative sources of such subsidy that can be project-based.

Development and ownership by public agencies. The Dakota, Scott, and Carver CDAs, and Washington County HRA have developed and own a number of affordable projects. These are not public housing and are financed in the usual ways. But the public ownership permits payments in lieu of real estate taxes at a much lower rate than even Minnesota's 4d rate, enabling lower rents for residents. The projects are also eligible for tax exemption on building materials, resulting in significant reductions in construction costs.

Often overlooked state resources. Brownfields development resources from the State Department of Employment and Economic Development (DEED) that can be used to assist in housing development. See the DEED resource handbook at: http://mn.gov/deed/images/Brownfields_Resource_Guide.pdf.

Fee Waivers are also a form of local financial assistance and are discussed below.

C. SITE SELECTION AND ACQUISITION

Many developers spend much time searching for sites, often accompanied by expensive preliminary analyses and design studies. Potential sites that are not zoned properly are difficult to identify and present difficult development challenges. Cities can take positive actions to reduce these challenges and costs: properly zoning, identifying, and assisting developers in finding appropriate sites, acquiring and in some cases temporarily holding the sites for affordable developers, making city owned land available to affordable developers, and most usefully, providing such sites to affordable developers at no or reduced cost. When cities start playing an active role, they necessarily must think through a variety of issues prior before developers show interest – making them far more prepared when that interest develops.

Woodbury's 2008 Comprehensive Plan Housing Implementation Chapter, and the city's actions pursuant to that chapter, could serve as a model.[35] The Plan provides: "The City has taken a proactive approach in identifying sites for affordable housing and using funds to secure and purchase these sites." One example was the large City Walk development where the City purchased a 2.2 acre parcel to set aside for affordable housing. The city ultimately selected Commonbond to do an affordable rental project, Views at City Walk, on the site. The City's Housing and Economic Development coordinator pointed out multiple substantial advantages to city site acquisition. First, it can send a clear message to the community that affordable housing is coming and allow community input. This, in turn, can be very useful in avoiding NIMBY objections. Second, it allows the city to shape the project with a Request for Proposals in order to address comprehensive plan and zoning issues and neighborhood concerns. In addition, the ability of the city to pay cash without waiting for funding approvals, as is often the case with non-profits, gives the city an acquisition and price advantage. Finally, holding costs are dramatically reduced.

The City of Minneapolis recently issued an RFP for a City-owned site near downtown and the Mississippi River. The RFP calls for a mixed income project with at least 20% of the units affordable. St. Louis Park is acquiring the McGarvey Coffee site, located near a proposed transit station, for conveyance to a nonprofit developer for affordable housing. Prior to the city's decision another developer had proposed to acquire the site primarily for market rate housing. The city has done other acquisitions and land write-downs. Woodbury acquired the site for the City Walk tax credit project.

The Dakota County Community Development Agency routinely acquires land for its own development program. The CDA noted that many Twin Cities suburbs have obsolete commercial projects that are ideal sites for acquisition for affordable housing. Its Dakota Heights project in South St. Paul, with 56 senior units, is built on a formerly commercial site. The CDA provided $250,000 in 2011 to assist in relocation of tenants from the Valley Ridge shopping center in Burnsville, redeveloped with 140 affordable units.

A good suggestion from our interviews was that public acquisition for park and ride sites could be combined with housing development, with the city acquiring the land anyway, and paying for infrastructure. In addition, there is an obvious potential for reduced parking requirements for the housing. Ryan Company's Downtown East Plan for housing over a parking ramp is a good example.

[35] Appendix 4.

Publicly owned land that is no longer needed for its original use also provides potential sites for affordable housing. King County Washington has a "first look" policy in which county agencies are to regularly check whether real property is still needed. If not, the first priority for disposing of such sites is for affordable housing.[36] See provision in Appendix 4. Between 1997 and 2007, the policy generated 400 new affordable housing units. The Metropolitan Council has analyzed an inventory of Council-owned land in transit corridors and focused on eight sites for further exploration of development opportunities. The large Metropolitan Transit Commission site adjacent to I-94 at Snelling in St. Paul is at a Green Line stop and is an obvious site for mixed income development.

The recently adopted "Seattle Housing Affordability and Livability Agenda" suggests two very relevant policies: cooperate with other public bodies to create an inventory of all publicly owned properties and evaluate their affordable housing potential; and create a mandate for the co-development of affordable housing in conjunction with new public buildings.[37]

Finding properly zoned sites suitable for affordable housing development is difficult and several developers indicated that city identification of developable sites with zoning which permitted multifamily development at sufficiently high density was very important. Rezoning requests add time and expense, present an opportunity for NIMBY opposition, and provide city officials with leverage to reduce project size or impose costly conditions. One developer indicated the need to seek rezoning for about half of his affordable projects.

The Metropolitan area Land Use Planning Act requires that cities' comprehensive plans include: "official controls and land use planning to promote the availability of land for the development of low and moderate income housing."[38] The Metropolitan Council has responded by requiring cities to "guide" sufficient land to minimally accommodate the affordable housing need assigned to each city. But that has merely resulted in broad land use density designations which have been shown to ultimately have little to do with actual production of affordable housing.[39] Wayzata provides a recent example. At a 2014 meeting, the City expounded on the development of a large, high density luxury development, at the same meeting pleading no available land as an excuse for non-production of affordable housing. The council's comprehensive plan guidebook should suggest that cities identify higher density sites that are likely candidates for development, and therefore for affordable housing development.

[36] King County Code 4.56.070C.1., at: http://your.kingcounty.gov/mkcc/clerk/code/07_title_4.pdf
[37] At: http://murray.seattle.gov/wp-content/uploads/2015/07/HALA_Report_2015.pdf, at page 19.
[38] Minn.Stat Section 473.859 Subd. 2(c).
[39] "The Minnesota Land Use Planning Act and the Promotion of Low-andModerate-Income Housing in Suburbia," 22 Law and Inequity, 31, 63, Goetz, Chapple, Lukerman, 2004. The study found that for every 100 acres designated as "high density" in initial comprehensive plans, only five had actually provided affordable housing sites after 20 years.

California has a statute similar to Minnesota's Land Use Planning Act, but with far more detailed requirements, including that cities' comprehensive plans designate specific sites appropriate for affordable housing development. The Metropolitan Council considered, but ultimately declined to include similar guidance in its new Housing Policy Plan, relying instead on its past practice of requiring a minimum amount of land to be designated for residential use at relatively minimal densities.[40]
The Council should provide guidance regarding identification of specific sites appropriate for affordable or mixed income housing in the Local Planning Handbook being produced in the fall of 2015 to guide cities in developing comprehensive plan amendments in 2018.

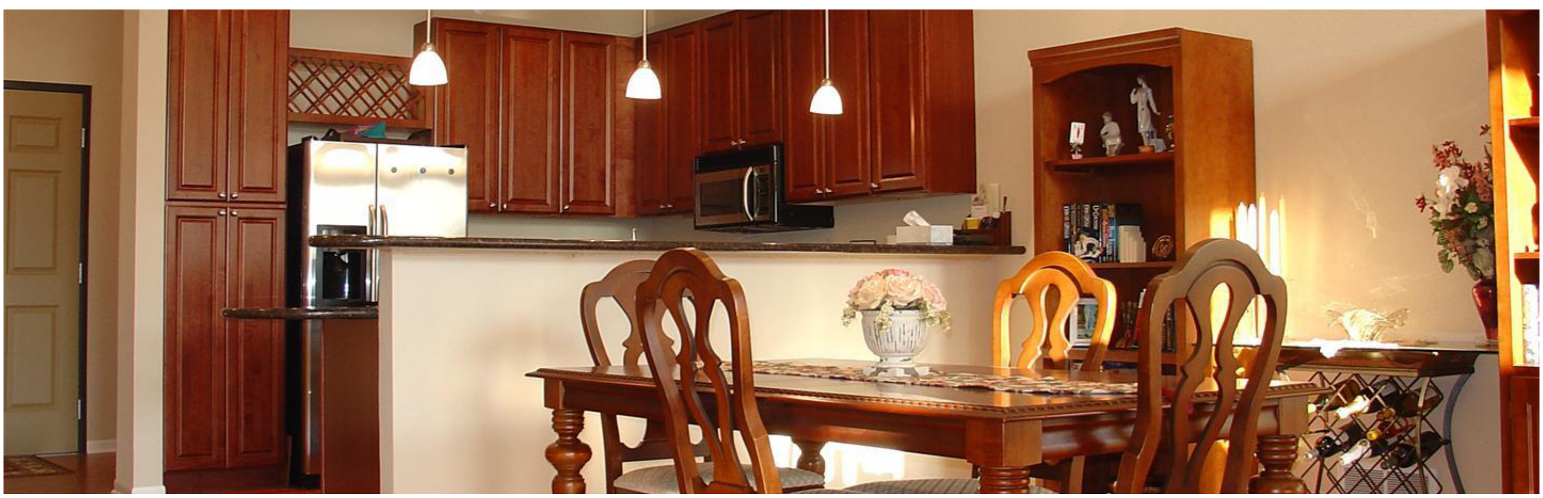
[40] 6-12 du/acre.

D. REDUCED PARKING REQUIREMENTS

Parking requirements add significant cost, particularly in the case of structured or underground parking. These requirements are typically imposed by cities, but lenders and investors may also independently require specific parking ratios. Several national studies and some anecdotal evidence locally, suggest that in many places more parking has been built than turned out to be necessary.[41] In addition, there is evidence of reduced reliance on cars in many dense urban environments with transit access. These factors have generated considerable interest in revisiting parking requirements for potential cost savings. The more that development experience in the region demonstrates the feasibility of reduced parking ratios in specific circumstances, the more likely that cities, lenders, and investors will relax their standards.

Undergound parking is very expensive. Developers have estimated construction costs around $15,000 -$20,000 per space, or up to $30,000/unit or higher, depending on the required parking ratio. Additional development costs add to these construction numbers. Surface parking costs far less to construct, but may require additional land acquisition. So reductions in parking requirements can be effective in reducing costs. Typical multifamily parking requirements run fairly high,[42] so there should be ways to reduce requirements somewhat. Metro area cities are pursuing a number of strategies to do so.

A number of cities have reduced parking requirements near transit stops. Minneapolis recently took action to reduce minimum residential parking requirements for locations near frequent transit, where no minimum parking will be required for buildings of 50 units or less, and .5 spaces/unit will be required for buildings of 50 units or more. Hopkins reduced the parking requirement for the Gallery Flats development, which is located near a planned station area on the S.W. Corridor, from 2:1 to 1:1. Because the S.W. transit line is still in planning, the city permitted "spillover" parking from the project on a city-owned site a short distance away, until the S.W. line is in operation. The Metropolitan Council's 2014 LCA funding awards for transit oriented developments went to 7 projects with an average of 68 parking stalls per unit. That this level of reductions is appropriate is demonstrated by the example of Riverside Plaza, near both Blue and Green Line stations in Minneapolis, whose owner says that 700 parking spaces provided for 1300 units "seems just right." Saint Paul has entirely eliminated minimum parking requirements for housing built within a quarter mile of University Avenue, along the Green Line. See Appendix 4. The City is leaving it entirely up to developers and the entities providing their financing to decide how much parking is necessary in close proximity to transit stops. Beacon is currently constructing a 44 unit development near a Green Line station with only 14 surface parking spaces.



[41] The "Right Size Parking Project" by King County, Washington, Metro Transit found an average of .4 excess parking stalls per dwelling unit in the Seattle metro area. See Appendix 1. See also, "Minimum Efforts," International Parking Institute, November 2013, p. 34.; "Parking Requirements Guide for Affordable Housing Developers," Southern California Association of Non-Profit Housing, 2-17-04.

[42] The Forest Lake standard for townhouses is 4 spaces/unit 2 of which must be enclosed and for apartments it's 2 per unit, one of which must be enclosed. In both cases, there is an additional space required for every 5 units. See Appendix 4 for its parking provisions, which also include reductions for senior housing, "flexibility" for affordable housing, and a provision for meeting up to 25% of requirements through "proof of parking."

Minneapolis has no minimum parking requirements for residential developments in its downtown area, relying instead on the large amount of public parking available in downtown. A new 293 unit project at 10th and Marquette proposes only 12 parking spots, and the same developer owns another 254 unit downtown property with no parking of its own.[43]

In some cases, parking requirements are also relaxed for senior developments. Lakeville permits this, and the Forest Lake code reduces the senior requirement from 2:1 to 1.25:1 and also provides for "flexibility" in meeting its stringent requirements for affordable units.

Residential neighborhoods sometimes oppose reduced parking minimums for fear increased pressure on on street parking spaces will spill over into their neighborhoods. Cities may couple reduced parking minimums for new developments with increased management of on-street parking, in order to address neighborhood "spill-over concerns."

In the Prospect Park neighborhood of Minneapolis, the neighborhood organization is planning extensive mixed use development, including an "adaptable" parking structure, portions of which could be transformed into residential or retail space if it turns at some point out to not be needed for parking.[44]

Both Chaska and Roseville permitted Aeon projects to count on-street parking toward meeting required parking ratios. Several suburban cities point out that for developments not close to transit, parking ratios on the order of 2:1 really are necessary. Savage's Planning Manager cites an example of the importance of getting the parking requirement right. The city permitted reductions for a high density condominium project, resulting in people parking in driveways that were short enough that second cars often stuck out onto the street.

An innovative strategy which several cities, including Woodbury, Forest Lake, Carver, Savage, and Minnetonka, have employed in these situations allows reduction of parking requirements where a "proof of parking" agreement commits project open space for additional parking if the reduced parking proves to be insufficient in the future. See, for instance, the Forest Lake parking ordinance in Appendix 4.

Getting parking right remains an inexact science. An architect who worked on two recently completed Minneapolis multifamily buildings commented that in one case the owners concluded they had overbuilt parking, and in another that they had not provided enough. There are some interesting efforts underway elsewhere around the country to develop tools to make projected parking needs more accurate. King County (Seattle) has created a "Right Size Parking Calculator" which lets users estimate parking use in the context of a specific site, based on a model using current local data of actual parking use correlated with factors related to the building, its occupants, and its surroundings—particularly transit, population and job concentrations. The calculator can help analysts, planners, developers and community members weigh factors that will affect parking use at multifamily sites, with a goal of getting "just enough." See Appendix 1.

[43] StarTribune 2/20/15.
[44] "Prospect Park development Heats Up," Twin Cities Daily Planet, 3-18-14.

E. FEE REDUCTION OR WAIVERS

Cities charge a variety of fees for new residential developments. These fees are intended to cover city costs related to processing the development, land use, or city financing applications, to access city sewer and water (Service and Water Availability Charges - SAC[45] and WAC, connection fees, fees for accessing main city lines-"trunk fees"), or as is the case with park or similar dedication fees, to offset burdens placed on city services and infrastructure as a result of the development. City fees can easily amount to $20,000-$30,000 per unit. These fees vary greatly from city to city and project to project. Fees related to new city sewer and water service are more likely in developing suburbs. In the case of the Medina townhouse project described in Appendix 3, the project paid $11,085 per unit in SAC/WAC fees alone. Waiver or reduction of fees, amounting to a city financial contribution to the project, can therefore be very helpful. The cities we interviewed differed dramatically in their practice of fee waiver or reduction, with several (e.g., Chaska, Forest Lake, Maple Grove, Woodbury, Minneapolis) making waivers available for affordable projects,[46] sometimes on a case by case basis with City Council approval, and others very opposed to ever granting these waivers (e.g. Hopkins, Lakeville, Minnetonka and St. Louis Park).

Much of the opposition to fee waivers seems to be based on avoidance of inter-departmental strife, with departments that collect the fees opposing waivers. One developer reported that fee reductions seemed more palatable to cities if characterized as a deferral. A $150,000 park dedication fee, for instance was deferred for 20 years, with the developer making a present value payment of $68,000.

The very effective Austin SMART program relies on expedited processing and fee reductions to provide incentives for inclusion of affordable housing.[47] The program's effectiveness was attributed to clear direction from the city council to the staff. Widespread adoption of city council-mandated fee waiver policies could make a significant contribution to reduce the cost of affordable housing. Waiver or reduction of fees not only directly helps the development's bottom line, but developers perceive a willingness to reduce fees as a sign the city is committed to supporting the project. The Metropolitan Council is considering SAC fee reductions under certain circumstances. Such a policy would be useful in its own right, but could potentially incent more widespread use of waivers by other city fees.

[45] SAC fees are charged by the Metropolitan Council and cities can add their own additional SAC charges. If a City waives the Metropolitan Council SAC for a development, the city will still have to pay the fee to the Council.
[46] See Forest Lake ordinance in Appendix 4.
[47] See Appendix 1.

F. ADMINISTRATIVE PROCESS AND DELAYS

Administrative processes, also known as entitlement processes, are intended to assure that development projects meet local health, safety, environmental and aesthetic standards. Interestingly, nearly every developer mentioned delays in these processes as major and widespread problems while virtually every city viewed their processes as efficient and effective. While we certainly don't assume that developers are always correct in their view of public policies, the consistency with which these opposing views were expressed and the anecdotal detail provided by developers suggests that there is considerable room for improvement in the processing of development proposals and that these would particularly benefit affordable housing developers.

Relevance to Cost of Affordable Housing

Delays can be extremely costly, increasing holding costs - increases in construction interest, taxes, and insurance and sometimes resulting in construction cost inflation. Delays can force a project into more expensive winter construction and can disrupt the state's once-a-year cycle for review of tax credit and some other affordable housing developments.[48] Moreover, cities sometimes require expensive reworking of project plans. Inspection processes also can result in delays once construction has begun. The Medina case study in Appendix 3 shows how city approval processes resulted in substantially increased costs per unit as a result of citizen opposition and the resulting delays, redesign, cost inflation, and loss of previously promised city assistance. All too common resident opposition to project density or NIMBY resistance to affordable units add to the frequency of administrative delays and intensity of the problems caused.

Legal Context

Requirements for city approval of development plans provide an opportunity for residents and city officials to demand plan changes, which can be costly and time consuming. In general, the more discretion city officials have in approving or denying an application, the more room there is to insist on significant plan changes. Virtually every development project of any size will require at least a site plan approval, often with an attendant public hearing. Many will require a rezoning or conditional use permit (CUP) to take advantage of zoning flexibility, also requiring a public hearing. Sometimes there will need to be a comprehensive plan amendment or a variance. There will also be applications for building and occupancy permits. In general, comprehensive plan amendments and zoning code amendments are considered "quasi-legislative" actions in which city official have a great deal of discretion to act in what they believe to be the public interest. Any request for public financing assistance or fee waivers will also require public approval and often be subject to a hearing and city officials will, depending on what, if any, criteria they have adopted, typically have a great deal of discretion. Discretion may be somewhat more constrained in responding to applications for a CUP, site plan approval, or variance. These are "quasi-judicial" actions in which officials evaluate the facts involved in a specific proposal against written criteria. There still may be a lot of discretion involved as the criteria may be open to a lot of interpretation. See more discussion in the next section dealing with community opposition. Issuance of permits is supposed to be "ministerial" – if clear standards are met, the permits must be issued.

[48] Not all delays are caused by city actions or inactions; delays can be caused by the developer or by third parties, especially financing sources, as well.

Once an application for a required approval is submitted, Minnesota law[49] requires approval or disapproval by the city within 60 days. The city may extend the time for an additional 60 days, giving reasons for the delay, or for additional time with the approval of the applicant. It may be adherence to this law that leads cities to believe their entitlement processes are efficient, when in fact, the developer's time line, and opportunities for administrative delays, begins well before an application is submitted and extends well past the issuance of building permits.

Municipal Practices

Developers cited problems at three different phases of project approvals: 1) the initial phase where developers are exploring the feasibility of a project or where discussions with city staff or elected officials may help shape a planned project, and where questions of what permits are needed and what standards are to be met are sorted out; 2) the period after submission of the application when staff and then public official consideration of the application takes place and where any citizen opposition is typically focused; and 3) with inspections subsequent to issuance of building permits.

Two types of problems were brought up as arising during the first phase, often running into the second. In a surprising number of cases, developers were asked by staff to initiate a project or had a proposed project embraced by staff, or even public officials, only to have city officials ultimately reject it. Substantial time and money was invested in developing a proposal only to have it rejected by city officials, either informally prior to submitting an application or during the approval process. The scenario is apparently common enough that one developer expressed appreciation, rather than dismay, that a city's staff simply told him immediately that the city council wouldn't approve an affordable housing proposal.

The second type of problem described by developers was a lack of coordination among the multiple city departments involved in reviewing applications. The result is the need to frequently rethink and redesign aspects of the projects as new problems are raised by new staff or new departments. This problem could surface either before or after submission of the proposal.

In the second phase, after the application is submitted, the major additional problem that typically surfaces is resident opposition to project density, design, and/or projected low income occupancy. Sometimes residents first learn of the project during the approval process and if they perceive grounds for opposition, the fact of this late notice will often intensify their opposition. Sometimes the opposition is justified and sometimes it is not. Often much of it could be avoided or neutralized had affected residents been involved in early discussions shaping the project. Such discussions may add time to a project, or may not if they avoid contentious lengthy discussions later on. But submitting an application without such vetting of the project and counting on the 60 day rule may be a losing strategy.

Particularly if there is a clearly discretionary approval requested, the 60 day rule doesn't really limit delays. The city is in a position to say "we can't approve your proposal as submitted – give us more time or you risk a no vote."

Resident complaints may really be about project height or density, or traffic, (market rate projects get these complaints as well as affordable projects) or the objection may really be about the low income occupancy. A related problem is residents who don't oppose the project but make (or request the city to make) additional demands. A common one is to include commercial space, when there is no viable market for it and the housing developer is not experienced in designing commercial space. This demand can easily lead to project financial failure.

[49] Minn. Stat. Section 15.99

In the third phase, several developers complained that subsequent to issuance of building permits, city inspectors made demands that were beyond the scope of the plans already approved and permitted. These cause expensive delays in the construction process or redoing already completed work. One developer cited an instance that would have added about $100,000 to construction costs had he not won an appeal.

Recommendations

Developers, and some city staff, suggested policies which minimize these issues to some extent:

- Each city should have a clear commitment by public officials to expedite affordable housing development. This is one important lesson from the Austin SMART program, and would go a long way toward permitting developers to proceed with some certainty and confidence. Such commitment to streamlined processing offers a no cost, sensible step toward compliance with the clear requirements of the Land Use Planning statute that each city's comprehensive plan list policies, plans, programs and actions to be taken that "will" produce the city's share of the region's needed affordable housing.[50]

- A number of developers stressed the importance of staff who were advocates for the project, supporting affordable projects at resident meetings and with funding agencies.

- Cities should have a clear and unambiguous description of the city processes and standards.

- Developers appreciate cities[51] which required an initial meeting with developers and which must be attended by staff representatives from all city departments with any approval authority. Woodbury's Housing and Economic Development coordinator also recommended this process as enabling all key staff to quickly spot potential issues. Developers noted that in some of the cities which have this policy, some key staff may miss this meeting and that often produces confusion and delay later on. Roseville's Development Review Committee takes up this idea at the next step, establishing a committee with representatives of all relevant city departments to review all development applications.[52]

- While some developers argued for minimizing mandatory contact with residents, many agreed that early meetings with residents, with the developer prepared to address issues and a supportive city presence, were very helpful in minimizing resident resistance to projects. The Austin SMART experience was that a requirement for early dialogue with neighbors virtually eliminated what had been a major barrier to affordable developments. See report in Appendix I.

- Ron Clark's projects in Savage and Carver both encountered very well organized NIMBY resistance. The two cities' responses, coordinated with Clark, provide very useful examples of how to effectively address this problem, and are described in a case study in Appendix 3. Also see the next section on addressing resident opposition.

- Especially for site plan reviews, there should be clear ground rules regarding the limited scope of resident and public official concern and comments (e.g., comment on exterior materials is appropriate; on the type of kitchen cabinets is not).

- Building inspectors should be well trained and supervised and refrain from altering or interfering with prior approvals as long as the project meets relevant code standards. A quick and efficient appeal mechanism is important.

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[50] Minnesota Statutes Section 473.859 subd. 4(3).
[51] Minneapolis and St. Paul were cited.
[52] See http://www.cityofroseville.com/DocumentCenter/View/2033.

Expedited processing

The above discussion was about streamlining development processes generally. If cities are looking for incentives for affordable housing or mixed income housing, prioritizing affordable projects over others can be effective. This would apply to cities with a level of development activity such that multiple proposals are under consideration at the same time. Nationally, a number of cities have adopted such expedited processing procedures for affordable housing proposals. Austin and San Diego have policies committed to processing affordable housing proposals in about half the average time. Making this work requires a staff advocate who is the single point of contact for each project and is charged with proactive problem solving. It also required strict time limits for each stage fo the approval process, with both city staff and developers expected to meet their deadlines. At least initially, the Austin SMART program processed affordable proposals in an average of about half the time of conventional proposals. See Report in Appendix 1. This expedited processing, along with modest fee waivers constituted a very successful incentive for production of modestly affordable (80% AMI) housing units. One lesson from the Austin experience is that there must be a strong, sustained, commitment from the top of city government to keep this system working as intended. When attention from the top waned, processing times slipped.

Austin has a population of 885,000. The process of allocating a staff advocate to each affordable housing project could probably work in Minneapolis and St. Paul, and the CPED structure, with a lot of the relevant departments under one roof, should facilitate it. But it’s unlikely to work in smaller cities with much smaller staffs. The idea that support from the highest levels of government for proactive problem solving, however, is an idea that could and should be implemented everywhere.

G. MATERIALS AND SITE REQUIREMENTS

Materials

There is no question that requirements regarding building materials imposed by codes and local policies can significantly increase development costs. But there was general agreement from both cities and developers that making affordable housing attractive and imposing requirements no different from those on market rate projects was important to encourage community acceptance. Likewise, there was agreement that durable or energy efficient construction materials and methods might increase development costs but make up for that with reduced operating costs over an extended project life. That is not to say that there are not controversies over some requirements and that some requirements probably increase development costs more than necessary. But most of the developers we interviewed did not raise issues with city requirements for specific construction materials as a problem for them. For that reason, and because any detailed analysis of very complex development requirements vs energy and other operating costs saved are quite technical and time consuming, we have not explored these issues.

Site Requirements

The earliest Metropolitan Council guidance on comprehensive plans, in 1973, noted that lot size, street width, set backs and similar zoning requirements can make housing unaffordable. The main recommendation at that time was adoption of Planned Unit Developments (PUDs) to allow more flexibility and reduced development costs. Many studies before and since that time have indicated that site requirements like these can unnecessarily add significant costs. Fortunately, the Council's 1973 recommendation has been widely adopted. Many cities and developers we surveyed commented that the wide spread use of PUDs provides the flexibility needed to address these requirements, although many added that there are often trade-offs resulting in better project design, but not necessarily significant cost savings. Because PUD ordinances are so widespread and offer so many potential trade-offs, and because of the widespread understanding that this flexibility can and should be used to reduce development costs, we have not pursued further the specific costs associated with lot size, set back, and similar requirements.

Smaller Units

Modest reductions in unit size have only a minimal effect on development cost because they don't involve the most costly construction items. While overall construction costs for a unit might average $125/sq.ft., a reduction in size from 800 to 750 sq.ft. would only save about $50/sq.ft. or $2,500/unit.

In the metro area and nationally, developers are exploring more dramatic size reductions to "micro units." In 2013, Minneapolis adopted a zoning change designed to allow smaller units. By eliminating a minimum lot area per unit in most zoning districts, the new standard allows the market to play a greater role in determining the number and size of units within new buildings.[53] Designers are considering units in the 250-400/square foot range. In April 2015, a developer proposed a new downtown highrise with 22% of the units as micro apartments, measuring 350-425 square feet.

[53] CPED Memo from Jason Wittenberg (7-29-13) describing ordinance to amend residential zoning standards.

Such units save development costs not only by reducing unit size, but also by permitting significantly higher densities within a building footprint, thus reducing fixed costs per unit. Generally micro-units are targeted at young urban professionals, who may be content with a very small unit if they have appealing common areas they can use as their ‘living rooms.” These units often have luxury features, and murphy beds and special cabinetry may be necessary. One developer was skeptical, citing development of 300-450 SF units in the 1960s-70s, which proved to be hard to market in soft rental markets. While this model could certainly be adaptable for low income households without children, it’s not at all clear that a 2-or 3-BR micro unit with dramatically reduced square footage would be appropriate for low income families with children.

H. MANUFACTURED HOUSING

The idea we encountered in our research, providing opportunity for the most dramatic development cost savings, comes from Northcountry Cooperative Foundation (NCF), a small Minneapolis-based non-profit specializing in converting manufactured home parks to cooperatives. Homes, averaging 1,350 sq. ft., produced by existing companies in Minnesota, can be manufactured, transported, and installed for about $100,000/unit. A site can be developed at about 7 du/acre with additional development costs of about $50,000/unit for acquisition, site improvements and soft costs. The cost of factory-producing the housing is eligible for low income housing tax credits. With total per unit development costs on the order of $75,000-$100,000 less than the current average cost of new affordable housing and the ability to claim tax credits for the construction costs, this idea could permit dramatic reduction in the amount of subsidy required to make the housing affordable. NCF is currently working on proposals for a couple of sites for such developments.

While this housing is, strictly speaking, single family rather than multi-family housing, it can be developed at a density similar to that of many metro area townhouse developments. Further, the Revenue Code encourages resident ownership of the homes after the initial 15-year tax credit compliance period.[54] In this way, conversion to resident (cooperative) ownership after the tax-credit compliance period under NCF's program could help ensure perpetual affordability without additional subsidy.

Another potential approach to providing affordable homeownership is being researched by NCF – that of developing new resident owned manufactured home communities using the New Markets Tax Credit program. One of the organizations in Minnesota with allocations of New Markets Tax Credits (Mid-Minnesota Community Development Corporation) is interested in financing new manufactured home communities. A unique characteristic of Mid MN CDC's financing is the provision of a seven-year, interest only loan, of which, 20% of the original loan amount is gifted or "left on the table" as equity upon refinancing in Year 7. This approach could also lead to long-term affordability by minimizing the financing that the cooperative share owners would need to carry over the long term.

A related possibility is the use of manufactured homes to fill the roughly 1,700 vacant pads in existing metro area manufactured home parks.

Elsewhere in the country, much more dense, traditional multi-family housing is being assembled on site from factory-built modular components, with substantial cost savings, although apparently not as dramatic as those involved in the Northcountry idea. See article in Appendix 1.

The Clover Field development in Chaska made extensive use of modular multifamily housing, which reduced project costs, early in the last decade. There have been no similar developments in the region since then. Chaska's Community Development Director describes a circular problem: using this model at scale requires relatively close manufacturing facilities; the manufacturers require a market; developing the market requires manufacturing capacity. Adding to the complexity is that architects still need to design the housing and architects aren't likely to develop familiarity with the unique issues involved until modular construction is in greater demand.

[54] IRS Code Section 42(i)(7).

I. PREFERENCE FOR MIXED INCOME DEVELOPMENT

While there was some preference for such projects among a number of cities, Eden Prairie was the only city we encountered where it was a requirement, which had resulted in the rejection of 100% affordable proposals. We have two very strong recommendations.

First, 100% affordable projects are welcomed by many cities in the region and there are dozens of examples of such projects of which city officials, staff, and residents are justifiably proud. This widespread metro experience, especially in higher income communities, demonstrates that there is simply no good reason to insist on affordable housing only in mixed income environments.

Second, the most practical way to produce mixed income projects is through inclusionary housing requirements, which put the market to work producing them, and which thereby avoid many of the extra costs that go with production of standard affordable housing. In contrast, imposing market rate requirements on standard affordable housing developments almost inevitably imposes a variety of problems which make production of these units very complex and expensive. Developers and financial sources for market rate housing are unfamiliar with financing for, and wary of inclusion of, affordable units. Developers and financial sources for affordable units are equally wary of the risks associated with market rate units. Blending the two in one building, if it happens at all, often involves complex condominium arrangements.

J. INCLUSIONARY HOUSING POLICIES

Inclusionary housing policies are typically adopted to achieve one or both of the following objectives. First, they provide a mechanism to enlist market forces and market rate developers in the production of at least some affordable housing by including affordable units in market rate developments. Second, these policies are aimed at providing mixed income opportunities or opportunities for lower income households to take advantage of locational opportunities otherwise out of reach. They are the best way to promote mixed income developments.

These policies have been utilized by cities and counties throughout the country since the early 1970s. They range from incentive programs, like providing density bonuses, fee waivers, financial assistance or expedited processing in exchange for 10%-20% affordable units to mandatory programs affecting any development over a certain size. Many mandatory policies simply make some level of affordability a requirement of all new housing. Others are triggered by developer requests for land use changes or city assistance. Some policies do not require the city to provide any form of assistance in return for the affordability; others provide for one or more of the various forms of financial assistance or regulatory flexibility discussed above. These policies typically do not provide housing affordable to extremely low income households, but rather those with incomes starting at 50% of area median income (AMI) or higher. There currently are nearly 500 voluntary and mandatory inclusionary policies in active use.[55]

Interest in the Region in these policies is growing both because many cities are looking for ways to develop more mixed income housing, and because the strengthening housing market and increased development activity makes these strategies more feasible.

There are some metro area cities using or in the process of adopting formal inclusionary policies, and others which have informal inclusionary practices. We'll describe some of these and make a few recommendations for expansion. Because inclusionary housing policies are relatively new to the metro area and because adoption of such a policy requires consideration of a number of factors, we have included a guide to inclusionary housing as Appendix 5.

A few metro cities take advantage of leverage they have with developers seeking land use changes or financial assistance to require affordable housing. Edina adopted a policy effective in November 2015 requiring an affordable component to any new development of at least 20 units which requires a zoning change. The city believes this will apply to most new developments. New rental projects must have 10% of the units affordable at 50% of AMI or 20% affordable at 60% AMI. New multifamily sales units must have 10% of the units below prices set out in the policy (e.g., $350,000 for 3 or more bedrooms). The city will consider incentives such as density bonuses, parking reductions or TIF, but these are not required. Rental affordability is required for at least 15 years, memorialized in a restrictive land use covenant.

Minnetonka generally imposes a 10%-20% affordability requirement for projects seeking land use approvals, although this policy is somewhat flexible. Minnetonka also requires 20% of the units affordable at 50% AMI for any projects using TIF. The City's policy has resulted in 188 affordable units in 11 projects with 897 total units (21% affordable).

[55] See, "Achieving Lasting Affordability Through Inclusionary Housing," Hickey, Sturtevant, Thaden, 2014, at: https://www.lincolninst.edu/pubs/2428_Achieving-Lasting-Affordability-through-Inclusionary-Housing.

Maple Grove requires all developers to seek PUD approval and has a point system emphasizing a variety of city concerns, including affordability. Although Maple Grove's is not, such a system could be weighted so as to make affordability mandatory, or nearly so. Maple Grove also has a practice of asking developers to include affordable housing, but without specifying details. Most recently, the developers of Skye at Arbor Lakes have agreed to approximately 10% affordable units affordable at 80% AMI, although there is no minimum term for this requirement and it is not secured by real covenants.

Some cities tie affordability requirements to use of local financial resources which don't otherwise have such ties as a matter of state law. Minneapolis, for instance generally requires any housing project with at least 10 units receiving tax increment financing or other funds to provide 20% of the units affordable at or below 50% AMI.[56] Minneapolis also recently issued an RFP for a City-owned site near downtown calling for a mixed income project with at least 20% of the units affordable. St. Louis Park has adopted a policy for developers seeking TIF assistance, requiring 10% affordable at 60% AMI or 8% at 50% AMI (for rental) or 80% AMI for ownership. See Appendix 4.

Some cities provide incentives in return for affordability. The Chaska Comprehensive Plan calls for 30% of units affordable at 80% AMI in exchange for regulatory flexibility (e.g., density bonuses reduced setbacks or other requirements, fee waivers, expedited processing) in several neighborhoods with significant development opportunities. In practice, the City negotiates affordability levels and tailors assistance packages to those levels. Woodbury's density bonus policy offers bonuses in return for at least 20% of the units affordable at 80% of AMI. The policy was effective in providing affordable housing in several market rate homeownership projects in the last decade, and in one case resulted in inclusion of a low income tax credit project within the project site. Forest Lake policy provides for a 15% density bonus, partial fee waivers and flexible parking requirement in return for developers providing affordable units.

These policies are not always focused on affordable housing or designed as effectively as they could be. For instance, Minneapolis offers a density bonus in exchange for affordable units, but it is almost never used because developers can also obtain the bonus for structured parking – something they nearly always would be doing anyway. Many of these metro area policies are generally very informal and flexible. Proponents of this approach argue that flexibility is necessary. The Chaska approach is a flexible one that appears to have been quite productive. But too often these informal policies do not spell out even basic objectives such as desired income levels or expected term of affordability, and may not even include any enforceable agreements assuring compliance with affordability commitments. In practice, such vagueness leaves it up to developers to decide what public objectives are to be implemented in their projects and don't provide staff with the kind of leverage they need to negotiate.

We didn't see references in the national literature to requiring acceptance of Section 8 housing choice vouchers in inclusionary affordable units, but that would seem to be an important policy.

[56] http://www.minneapolismn.gov/cped/resources/reports/cped_affordable_housing_resolution.

Both the Metropolitan Council's new Housing Policy Plan and the S.W. Corridor draft Housing Strategy recommend exploration of inclusionary housing policies. The Livable Communities Act statute includes provision for an "Inclusionary Housing Account"[57] which would provide assistance to mixed income developments located in cities that offer incentives for such housing. This account has not been funded by the Legislature in recent years but has received renewed attention in the Council's new Housing Policy Plan.

Researchers are generally agreed that mandatory inclusionary policies are far more effective in producing affordable housing than those that simply provide incentives. Some portions of the metro area are currently experiencing a very hot market for upscale rental housing. National experience indicates the feasibility and effectiveness in such markets of well-designed inclusionary policies that clearly require 10%-20% of units in these projects, or at least those benefitting from city investments or land use decisions, be affordable for the long term, with agreements that bind the initial and future owners.[58]

This seems to be the best tool available for achieving mixed income developments that are desired by many cities. As explained in the Section on Preferences for Mixed Income Projects above, efforts to develop mixed income projects using standard tools are difficult and expensive.

Inclusionary housing policies have consistently withstood challenges under the U.S. Constitution, including a June 15, 2015 decision by the California Supreme Court.[59] In Minnesota, inclusionary housing policies are specifically permitted by Minnesota Statutes Section 462.358 subdivision 11 which authorizes inclusionary zoning policies in the context of city land use approvals.[60]

[57] Minn. Stat. Section 473.255
[58] See Robert Hickey, "Inclusionary Upzoning; Tying Growth to Affordability," Center for Housing Policy, July 2014, at: http://www.nhc.org/Inclusionary-Upzoning.pdf. "Inclusionary Housing Survey: Measures of Effectiveness," Innovative Housing Institute, 2010, at: http://www.inhousing.org/resources/inclusionaryhousingsurvey2010/
[59] http://www.courts.ca.gov/opinions/documents/S212072.PDF
[60] See a more detailed discussion in Appendix 5.

K. AVOIDING AND ADDRESSING COMMUNITY OPPOSITION

Strategies for minimizing resident opposition to affordable housing generally, as well as to project density, are very relevant to the issue of reducing the cost of affordable units for three primary reasons. First, resident opposition can kill affordable projects, and a history of successful opposition can prevent them from ever being proposed. Second, resident opposition often leads to delays and as the section above details, delays can be costly. Third, resident opposition is often about, or at least focuses on, project density or height or city financial assistance. That opposition in turn leads to council demands that the project scale or height be reduced or assistance eliminated. As described in the first section, that in turn can lead to substantial increases in development costs per unit.

Community practices

Kevin Ringwald, Community Development Director for Chaska cites several key factors that help explain general community acceptance of affordable projects in Chaska.

- First, the City meets with residents to explain the city's objectives for potential development sites and to promote resident understanding and acceptance of those objectives - well before there are any actual development proposals.

- Second, those discussions include information about the jobs of the people who will live in the housing and why they need affordable units. In 2014, a typical metro-area 2-BR apartment rented for $1,083, requiring an annual salary of $43,300 to afford at 30% of income. More than half of metro-area jobs pay less.[61] Elise Durbin, Minnetonka's Community Development Supervisor also emphasizes the utility of this sort of information in deescalating opposition.

- Third, instead of abstract discussions of proposed density, they use photos of actual, attractive, projects built at those densities.

- Fourth, Ringwald stresses the importance of getting the first project right.[62] Chaska's first modern affordable project, a townhouse development from the late 1990s that actually included public housing units, is so attractive that affluent residents still enquire about possible openings. The city has subsequently produced a number of successful projects with affordable units and at relatively high densities. The quality and community acceptance of those projects has built up a level of trust among residents as has a policy focus on balance of housing types and costs.

- Finally, city policy, which focuses on balancing housing types and costs, is well understood by residents and developers alike. Developers are expected to accept and work with city objectives for development sites and city staff are advocates for projects that promote those objectives. Nonetheless, voices of opposition to affordable, or relatively dense, projects do continue to emerge. But the city can count on resident supporters, and on the support of public officials, based on Chaska's history of good projects and on the early acceptance of development objectives.

Maple Grove resisted affordable housing well into the 1990s (See case study in Appendix 3). Since then it has employed many "best practices" to develop a number of affordable projects. Dick Edwards, the Development Director makes a number of points similar to Ringwald's. He says that the first affordable project, which was quite divisive, was so attractive, and blended so well into adjacent high end apartments, that it tended to allay community concerns about subsequent projects, which have maintained that sort of quality. Staff consistently focuses on, at every opportunity, who is actually going to live in the housing. Edwards finds a particularly persuasive argument is to ask people how much their children are paying for rent, emphasizing that affordable housing is just normal housing for people in lower paying careers. Maple Grove also takes every opportunity to provide residents with statistical evidence that affordable housing is not associated with crime or reductions in property values. Edwards emphasized that the process of greater community acceptance of affordable projects has been a gradual one.

[61] See Family Housing Fund report at: http://www.fhfund.org/wp-content/uploads/2014/10/Working_Doesnt_Pay_for_Home_H-T_May-2014.pdf
[62] The Carver case study In Appendix 3 and comments from Maple Grove staff reinforce this point.

Most developers concur with the views of Ringwald and Edwards. They indicated the importance of early meetings with residents to address potential concerns, before there is a specific application requiring city approval. Such applications are likely to generate opposition if they have not been preceded by careful steps to try to address potential concerns. Early community meetings, especially with city staff support, offer an often effective means of heading off or minimizing opposition and generating countervailing support from community members. For example, Ron Clark's development in Savage faced initial neighborhood opposition which was effectively addressed with a detailed discussion of management steps to assure residents will be good neighbors.

Minnetonka's Durbin indicated one additional policy that can help alleviate neighbors' concerns – a clause requiring sound management principles in the project development agreement.

In response to very negative comments made at public meetings about affordable housing and its residents, former Minnetonka Mayor Karen Anderson recruited pastors, priests, and rabbis from the neighborhood of the proposed development to speak at public meetings and talk about the development in their places of worship. She reported that this completely changed the atmosphere of public meetings, making them far less volatile. Anderson also stressed the importance of recruiting residents to speak up in favor the projects, especially residents in the wards of doubtful Council members. Like Ringwald and Edwards, Anderson noted the benefit of providing information on the people who actually needed and were going to live in the housing.

Finally, positive post-occupancy testimony from neighbors or public officials about similar projects can be very helpful in allaying neighbors' concerns.

An easily accessible database providing information supporting all of these strategies would be very useful for affordable housing developers and advocates.

But resident opposition cannot always be headed off. Clark's subsequent project in Carver, in spite of early efforts to address concerns, led to a very intense and focused opposition campaign described in the case study in Appendix 3. City staff cooperated with the developer to address this opposition in an exhaustive way. They initially addressed concerns about property values with a 2014 metro area statistical study showing no effect of affordable housing. When opponents twisted findings in that report, the City hired the consultant to do a supplemental report refuting the neighbors' arguments. The developer addressed crime by describing strong management practices and with positive references from the Savage Crime Prevention manager. City staff met with the organized opposition to address their questions and helped the developer organize a bus tour of their Savage project for councilmembers and any citizens, to which opponents were specifically invited. Staff prepared a Citizens Guide to the project, attempting to dispel myths, and mailed it out to citizens.[63] The city posted on its website virtually every document submitted by the developer, prepared by the city, or presented by the public. None of this satisfied opponents, but the City Council resisted the NIMBY pressure and approved the project.

[63] Included in Appendix 4.

Some relevant legal principles

Some legal principles that were involved in the Carver process and in the Council vote are important in considering project design and potential responses to resident opposition. The only city approval required was for approval of project design in the context of a Planned Residential District. The decision is a “quasi-judicial” one, meaning that the Council had to apply the design guidelines set out in the design district to the specific project. In doing so, decision makers are required to remain impartial and decide based only on the principles in the design guidelines and the facts of the proposal. That meant that the staff, rather than any supportive Council members, had to advocate for the project. It also meant that the Council’s discretion was limited. Most of the opposition arguments were not even relevant to the design guidelines and Council members could not deny the project simply because of intense opposition. Some of the Council members relied on that in explaining their votes for the project. These two principles to some extent insulate Council members from community pressure leading up to a vote. The requirement to rule only on written policy and facts of the proposal should dictate Council member decisions, and it also provides them with political cover for votes in favor of a controversial project.

This requirement to rule only on written policy and facts of the proposal applies to design reviews, variances, and conditional use permits.[64] Among these three types of administrative decisions, city councils may have some more discretion in evaluating conditional use permits, where the ordinance language may leave room for interpretation, than in design approvals or variances, where the guidelines are typically more specific. The requirement does not apply to re-zoning or to comprehensive plan amendments, where council members have a great deal of discretion to act in the public interest as a legislative body.

The importance of avoiding the occasion for a legally effective resident opposition should be emphasized. Developable parcels appropriate for higher density affordable housing should be zoned to permit such development, without the need for rezoning.

[64] Note that the extent of city discretion in reviewing conditional use permits is somewhat controversial. The state Supreme Court has ruled that conflict with a comprehensive plan is grounds for a city to reject a proposed conditional use permit. Hubbard Broadcasting, Inc. v. Afton, 323 N.W.2d 757 (Minn. 2982). In the recent RDNT case, the city argued for rejecting a CUP based on conflict with the comprehensive plan. In a 3/18/15 decision, the Supreme Court upheld the rejection on other grounds, without addressing the comprehensive plan issue. But in a long concurring opinion, Justice Anderson expresses concern about employing comprehensive plans in that way. He points out the comprehensive plans often use vague language, and contain different provisions that could be used to support opposite positions on a CUP. In the RDNT case, for instance, the city rejected the CUP relying on provisions about increased traffic but Anderson pointed out that they could just as well have supported the CUP based on provisions supporting the type of housing that was proposed. His conclusion was that relying on comprehensive plans to reject CUP’s, rather than sticking to specific criteria in the CUP ordinance, gives the city far too much discretion. See, RDNT, LLC v. City of Bloomington. So it’s really not clear whether cities can rely on vague comprehensive plan language to expand their discretion in dealing with CUP applications. A similar issue may arise in site plan approvals where the law is also murky. Even though site plan approvals affect most development proposals, they are not even mentioned in Minnesota statutes and there is little case law involving them.

The Medina case described in Appendix 3 describes a strategy for addressing community opposition by proposing a project that requires only city approvals in which Council discretion is very limited. The Council was initially supportive of a project with a planned unit development allowing the developer to build a townhouse development with 32 units in a zoning district where only 26 would be permitted without the PUD. Intense community opposition led the developer to drop the PUD application and to redesign the project with only the 26 units permitted by the zoning. With a PUD no longer necessary, the only City approval required was site plan approval, with the Council limited to determining whether specific site requirements had been met. The project is now proceeding.[65]

The Forest Lake case, also described in Appendix 3, illustrates a final legal principle important in addressing resident opposition to affordable housing. Opposition to a townhouse project proposed in 2004 was spearheaded by a Planning Commission member who published a purported Commission public hearing notice that contained every negative stereotype of low income residents imaginable. The following statements are examples: “The new tenants will be imported from Minneapolis, St. Paul, and surrounding cities to solve their low-income problems at our expense.” “There are no chronic homeless in Forest Lake so they will be imported from the Twin Cities.” “These types of buildings tend to turn into a hotbed of crime, drug-dealing, drug-abuse, alcohol abuse, spousal abuse, and child abuse.”

These statements also reflected the opinions of city council leaders who took multiple steps to block the proposed development. A lawsuit followed, based in part on illegal procedure used by the city and in part by State Human Rights Act violations. A settlement permitted the project to proceed and also required establishment of a citizen task force to address the underlying issues raised by the city’s actions. The Taskforce was so effective that it convinced the city to adopt a comprehensive plan in 2008 that was characterized by a later study as the best in the metro area and a model for other cities.[66]

Litigation is expensive and developers are typically reluctant to pursue it. But as described above, there are significant legal limitations on city’s abilities to reject, or force the redesign of projects. And the Forest Lake example demonstrates that litigation can result in a very dramatic reversal of a city’s position on affordable housing in a very short time.

[65] The downside of this approach is dramatically increased per unit costs – see introduction and Appendix 3.
[66] “A Vision for the Next Decade, Planning for Affordable Housing in the Twin Cities Metro” by Humphrey School students supervised by Ed Goetz, pgs. 62, 67.

L. OVERCOMMING BARRIERS TO AFFORDABLE HOUSING

Our interviews revealed a number of barriers, directly to adoption and implementation of best practices for producing affordable housing, or to affordable housing itself and thus indirectly to best practices. These barriers may reinforce each other and will play out in a variety of ways in different cities. But we also found cities that had adopted policies and strategies to overcome these barriers.

Adopt a proactive, clearly articulated approach to support a full range of housing choice. Many public officials have a passive approach toward affordable housing, viewing their community as having already "done their share," or see it as a lesser priority. While public officials are typically not overtly hostile to affordable housing, many do not view it as a priority, and thus are unlikely to proactively pursue policies aimed at attracting affordable housing such as density bonuses or site identification. There may be little citizen support for affordable housing, competing priorities (like attracting any development at all, or keeping taxes down), or the sense that there is already too much rental and/or affordable housing.

- **Understand the need and data related to Metropolitan Housing goals.** Among the cities we interviewed, there was widespread belief, even among cities very proactive in seeking affordable housing, that the Metropolitan Council's affordable housing needs assignments were unrealistic. The Council's method of negotiating of Livable Community Act goals recognizes that resources do not exist to fully address all of the region's housing needs. Cities with a positive, proactive, approach are likely to make the most progress toward meeting their community's, and the region's, housing needs.

- **Become a partner in supporting a full range of housing choices.** Many cities view production of affordable housing primarily as the task of developers and other parties, such as the Minnesota Housing Finance agency or the Family Housing Fund. Apple Valley and Lakeville, for instance, rely almost exclusively on the Dakota County CDA to produce affordable housing. Public officials there may not be actively hostile, and may be willing to facilitate siting of CDA housing with rezoning or PUDs, but getting sufficient subsidies from the state and other funders to make housing affordable, which is very expensive to develop, is the CDA's job. Related to this, Cities too often simply don't think about the cost of their actions, or view the costs as justified by other city priorities, because addressing affordable housing costs is someone else's responsibility; the process is so complex and involves so many agencies and partners that cities view themselves as a minor player. For example, virtually every city interviewed saw no problems with its administrative processes whereas virtually every developer cited administrative delays as a major issue. Cities that did the best job of meeting their community's affordable housing needs adopted a full range of policies to facilitate production of affordable housing. See, for example, Woodbury's implementation plan in Appendix 4.

- **Seek technical assistance or build staff capacity to negotiate with developers.** As cities try to promote mixed income housing, many are intimidated by developers and development financing, because they lack confidence in understanding what is financially feasible in their housing markets. In some cases, they are so anxious to attract development of any kind that affordability is an afterthought or viewed as too risky to impose. Thus, for example, St. Paul lost the opportunity to use density bonuses when in rezoned its transit areas. A similar dynamic is playing out in Southwest Corridor cities, some of which are considering rezoning, to grant higher densities as a development right. In some cases, cities also may not realize the value of the benefits they provide to developers through public actions. A number of cities routinely provide TIF funding to housing developers without considering the potential for those developers to include affordable units. A boom in luxury rental housing has gone on in parts of the metro area for several years with limited attention given to the possibility of attaching inclusionary housing requirements to the land use approvals and financial assistance provided to the developers, with the recent exception of St. Louis Park's new policy.

- **Seek technical assistance or build staff capacity to plan for affordable housing development.** In a number of cities, especially those on the periphery of the metro area, there is very little experience with dealing with development, let alone affordable development and therefore little exploration of relatively sophisticated tools like density bonuses or TIF. On the other hand, Chaska has been a metro leader in affordable housing, and Carver, with the help of hired technical assistance, recently approved its first major affordable project.

- **Proactively address potential resident opposition.** Many of these problems are exacerbated by resident opposition to high density projects, even market rate ones, and to any kind of affordable developments. Developer requests for increased density through rezoning or CUPs or for city financial assistance require public hearings and public approvals. These requirements, in turn, provide a forum for large, sometimes hostile turnouts at public hearings and demands for rejection of developer requests. The discussion on pages 36-39 addresses a variety of strategies successfully employed to address resident opposition to affordable projects.

- **Support 100% affordable projects.** There are some indications that concerns about areas of concentrated poverty may have led some suburban communities to draw the wrong lesson—that any 100% affordable development, no matter the residents' actual incomes and rent levels nor how affluent the surrounding community, creates concentrated poverty, and thus should be avoided. Cities such as Chaska, Woodbury, and Maple Grove are proud of a number of 100% affordable projects which they've assisted in developing.

- **Consistently inform and educate policy leaders.** Public official turnover is another barrier mentioned by several developers, who had formerly approved projects rejected or faced with demands for costly changes after an election. Staff have to keep Council members constantly informed, and new members educated regarding the need for and benefits of supporting a full range of housing choices.

- **Impose inter-departmental cooperation.** A source of resistance to fee waivers is that the city departments charged with assisting housing development aren't in a position to impose revenue reductions on other city departments.

As described in the interviews and in the case studies set out in Appendix 3, cities that have taken proactive steps to attract affordable housing seem to have followed similar paths—once the first project is initiated. They begin by focusing on a successful first project (as most new affordable projects are, even those opposed by residents). Resident concerns subside. The first success leads to additional efforts, and with experience cities gain the sophistication necessary to take on increasingly complex challenges and adopt more tools. They learn and develop strategies to address resident concerns and opposition.

But these cities came to take their first steps in a variety of ways – successful fair housing litigation (Forest Lake), Metropolitan Council pressure over infrastructure funding (Maple Grove), political leaders who realized that their communities needed affordable housing (Minnetonka, Carver), grassroots organizing and business community support, shifting the conversation to the economic imperative of supporting a full range of housing choices (Woodbury). These were highly individualized pathways, dependent on local circumstances, and aren't readily replicable. If metro area cities are going to come close to addressing its regional affordable housing needs, a more systemic approach is needed.

Strategies for Overcoming Barriers

We see two primary strategies for overcoming the barriers on a wider scale: 1) Met Council and federal policy, and 2) The provision of technical assistance to communities.

Metropolitan Council Policy

The Minnesota Legislature enacted a systemic approach with the Land Use Planning section of the Metropolitan Government Act. Minnesota Statutes, Section 473.859 requires each metro area community to have a comprehensive plan, updated every decade:

"containing standards, plans and programs for providing adequate housing opportunities to meet existing and projected local and regional housing needs, including but not limited to the use of official controls and land use planning to promote the availability of land for the development of low and moderate income housing."[67]

Each plan must include an implementation program setting out "public programs, fiscal devices and other specific actions to be undertaken in stated sequence" to implement the comprehensive plan. This must include a housing implementation program which "**will** provide sufficient existing and new housing to meet the local unit's share of the metropolitan area need for low and moderate income housing." (emphasis added.) The "will" makes an effective implementation plan mandatory and provides a standard against which these plans can be evaluated.

The most important steps that can be taken to address barriers to best practices in producing affordable housing and reducing costs are those related to measures the Metropolitan Council will take between now and 2018. Every metro area city is required to update its Comprehensive Plan by 2018. Since the 1980s, Council review of these plans has focused on whether the plans repeat the low income housing need number assigned to the community by the Council and whether the city has "guided" sufficient relatively high density land to address that need. Because the low income need numbers are far higher than most cities expect can actually be achieved, cities have tended to pay little attention to the need assignment and to view the "guiding" of land as not a very meaningful exercise. Fortunately, the Council's new Housing Policy Plan has renewed a focus instead on the implementation program-- on concrete specific steps that cities should take to address their share of the region's need for affordable housing. The Council's Community Development Committee recently adopted the following language to be inserted into the Housing Policy Plan:

> Communities have a variety of additional tools at their discretion to encourage, incent, and even directly create affordable housing opportunities; guiding land at higher densities alone is insufficient to meet the existing or projected needs for affordable housing. Complete housing elements must identify a community's "programs, fiscal devices and other specific actions to be taken in stated sequence" (Minn. Stat. 473.859, subd. 4) to meet housing needs as stated in statute, clearly and directly link which tools will be used, and in what circumstances, to explicitly address the needs previously identified.
>
> The Council will provide local planners a list of recognized tools and resources that support affordable housing development through the Local Planning Handbook… By providing a list of tools that many communities successfully use, the Council hopes that local comprehensive plans will be clear, transparent policy documents that provide road maps to address housing needs for planners, local leaders, developers, and citizens alike. In addition to meeting the statutory requirements of the Metropolitan Land Planning Act, these comprehensive plans will signal to developers of where communities are likely to support affordable housing and thereby make affordable housing development a less risky proposition.

[67] Minnesota Statutes, Section 473.859 subd. 2(c).

This new policy language sets the stage for much more detailed guidance by the Council on regulatory policies that facilitate the production of affordable housing and for more critical review by the Council of cities' implementation programs. The Council will be issuing a Local Planning Handbook to assist cities in the process in the fall of 2015, and cities are likely to begin their planning processes in 2016.

Very importantly, in terms of providing incentives to cities, the new Housing Policy Plan has increased the prominence of city's housing performance scores in decisions for both Livable Communities Act and transportation funding. It has also shifted the scoring system toward greater recognition of actual production of affordable housing and actual use of local policies that are effective in catalyzing the production of affordable housing (as opposed to planned policies).

This guidance and critical review of proposed implementation plans, coupled with more effective housing performance scoring, provides the best opportunity since the early days of the Council in the 1970s to ensure wide scale adoption of best practices by metro area cities. The development of comprehensive plans will require a once in a decade focus by city officials and city staff on housing policies. For the first time in decades there will be specific Council recommendations for regulatory reform and commitment of local resources coupled with heightened incentives for cities to take these recommendations seriously. The comprehensive plan process also represents an ideal vehicle for citizens and organizations concerned about affordable housing to play a direct role in policy development. Council staff have agreed to work with the Minnesota Challenge project on developing policy recommendations.

A 2009 report on metro cities' 2008 comprehensive plans[68] found "no correlation" between the implementation steps set out in cities' comprehensive plans and what those cities' staff said in interviews about future steps. The obvious concern raised is that even well drafted comprehensive plans can contain mostly empty promises. That concern may be offset somewhat to the extent that the Metropolitan Council in reviewing comprehensive plans insists on a description of "specific actions to be undertaken in stated sequence"as required by the statute.[69] Similarly the shift in housing performance scoring toward more weight on policies and programs that are actually utilized provides an incentive to implement comprehensive plans.

Federal New Starts

A second major impetus for improved planning for affordable housing production is the federal New Starts program, which for the first time provides a significant competitive advantage in federal transit funding for effective, proactive planning for affordable housing in conjunction with new transit. In the immediate future that could play an important role in development of affordable housing strategies by the cities along the proposed SouthWest and Bottineau lines. The Minnesota Challenge project will be making specific recommendations for the S.W. Corridor cities in the next phase.

The Metropolitan Council's new comprehensive plan and housing performance score policies and the New Starts scoring provide a substantial impetus to overcome the first two barriers to more effective housing policies listed above, and to adoption of best practices.

Technical Assistance

There is another critical piece, however, that is currently receiving too little attention: the need for much more comprehensive and sustained technical assistance to cities. Smaller cities on the metro periphery with little development experience face overwhelming challenges with inadequate staffing. There is also little experience in the metro area with inclusionary housing policies and cities facing an unprecedented market for high-end rental housing are unprepared to take advantage of this activity. This should be a particular priority for Southwest Corridor cities, given the New Starts scoring criteria.

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[68] "A Vision for the Next Decade - Planning for Affordable Housing in the Twin Cities Metro," produced by Humphrey School students supervised by Ed Goetz.
[69] Minn.Stat. Section 473.859 Subd. 4.

A major barrier to the take up of best practices is that cities don't have a way to judge the value of doing so, whether in financial terms or in housing outcomes. Cities feel vulnerable when it comes to development in their cities—they don't want to impede development (including imposing affordable housing requirements) and they often feel at the mercy of developers when it comes to what pencils out and what doesn't. In short, they don't know what's financially feasible. We found that it is not uncommon for cities to provide subsidies to developers (e.g., relaxed parking, TIF, CUPs) without asking for anything in return.

Cornerstone Partnership has developed a tool, available on line, that is very useful for developing a feel for how different inclusionary housing requirements and incentives might impact the economic viability of hypothetical development projects.[70] Although it is not a replacement for professional real estate analysis, the tool can help policy-makers and advocates understand the economics of inclusionary requirements from the perspective of a market-rate developer, and start to ask the right questions about proposed developments. Minnesota Challenge, in conjunction with Cornerstone, held workshops with a number of local development officials to test this tool. The workshop evaluations found that: twelve of thirteen respondents said the workshop was "very" or "exceptionally" helpful in understanding housing markets and financial incentives; eleven of twelve respondents thought the financial tool was 'very" or "exceptionally" helpful in thinking through the level and types of subsidies cities might provide to developers; ten of thirteen respondents (and all city staff) said they would definitely use the tool if it were made available.

Cornerstone is also proposing to carry out a detailed financial analysis of market rate housing development in the metro area and in specific metro area cities. This analysis would give cities an idea of how elastic or inflexible their housing market is, which variables their local market is especially sensitive to, and a sense of the financial value of the tools they can put to use. It would allow cities to carefully target and calibrate inclusionary housing policies and tools and would provide the basis for a major step forward in implementing inclusionary policies and in evaluating developer's requests for financial assistance.

A second major barrier is that a number of cities have large affordable housing needs and little or no experience in producing affordable housing. Assistance in developing affordable housing implementation plans and strategies is badly needed. Further, the need to revise comprehensive plans over the next few years offers an opportunity for that assistance to be really effective.

The upcoming requirement for comprehensive plan revisions presents the opportunity for these cities to focus on development of effective affordable housing implementation plans and programs. ULI Minnesota's Opportunity Cities Program[71] might provide a model for provision of technical assistance to cities in this regard. The Program provided ULI Minnesota staff and a panel of metro area planning/housing experts to work with local residents and city staff to develop a housing audit, site analyses, and recommendations for local policy makers for 9 metro cities. We'd suggest something similar, perhaps with a focus on affordable housing in the context of cities' comprehensive planning efforts devoted to housing. For ULI to play this role would require funding for an increase in capacity.

Funding the two types of technical assistance described above, for the period during which cities are developing their comprehensive plans, could be a very cost-effective way to boost the production of affordable housing in the metro area for the next decade.

[70] http://www.affordableownership.org/event/webinar-inclusionary-housing-calculator-training/
[71] http://minnesota.uli.org/initiatives/housing/opportunity-city-program/