



**To:** MAYOR AND COUNCIL

**Agenda Item #:** VII.E.

**From:** Cary Teague, Community Development Director

**Action**

**Date:** September 16, 2015

**Discussion**

**Subject:** Affordable Housing Policy

**Information**

**Action Requested:**

Adopt the attached Policy as recommended by the Housing Foundation.

**Information/Background:**

Based on the July 21<sup>st</sup> City Council recommendation to consider fees in lieu of affordable housing, staff has worked with the Edina Housing Foundation to develop a recommendation. After several meetings, and considerable deliberation, the Housing Foundation is recommending the attached Policy. Please note that the format of the Policy has been changed from the Policy considered July 21<sup>st</sup>, however, the content is still the generally same. (See attached Policy and Memo from the Edina Housing Foundation, and the original policy considered July 21.)

As part of their discussions, the Housing Foundation developed a formula for calculating fees in lieu of affordable housing based on the cost of producing an affordable housing unit. Because the fee ends up high, it may encourage developers to provide affordable housing within their project or dedicate the fee that it would have cost them to deliver an affordable unit.

The way the fee is calculated is to take the difference between market rents (assumed to be \$1.90/sq. ft.) compared with affordable rents at 50% level (the difference was slightly over \$1000/month, on average for 1, 2, and 3 – bedroom units), then capitalizing this difference at a current market rate (6% was used), and then multiplying by 110%. The result at this time is \$220,000 per unit. Therefore, as an example a 200 unit project would be required a 4.4 million dollar fees in lieu of dedication. That is \$220,000 times 10% (20 units) is 4.4 million. See the calculation on the following page.

**Affordable Housing Calculation:**

Bedroom Type	Unit Mix	Unit Size In sq ft	Market Rent @\$1.90/sq ft	Affordable Rent @ 50% Level*	Rent Differential	Average Rent Differential
1	40%	750	\$1,425	- \$737	= \$688	
2	50%	1,100	\$2,090	- \$875	= \$1,215	
3	10%	1,200	\$2,280	- \$1,000	= \$1,280	
	100%					\$1,010/month

*Average Rent Differential \$1,010/month X 12 months = \$12,120/year*

*\$12,120/year ÷ 6% Capitalization Rate = \$202,000/unit*

*\$202,000/unit X 110% = \$222,200/unit*

*Rounded to \$220,000/unit*

*\*Reduced rents by tenant-paid utilities, assumed to be \$75/month for 1-bedroom, \$100/month for 2-bedroom and \$125/month for 3-bedroom.*

The chair of the Housing Foundation, Jeff Huggett, will be at the City Council meeting to answer any questions the Council may have.

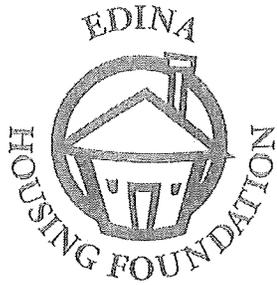
Please note in the proposed policy, that the Foundation does not endorse a specific fee in lieu of affordable housing for multiple residential housing projects. The foundation does recommend a more flexible policy as follows:

1. Whereas it is the strong preference of the City that each new qualifying development provide its proportionate share of affordable housing, the City recognizes that it may not be economically feasible or practical in all circumstances to do so. As such, the City reserves the right, in its sole discretion, to waive this policy (only if circumstances so dictate, as solely determined by the City). In lieu of providing affordable housing in each new qualifying development, the City may consider the following:
  1. Dedication of existing units in Edina equal to 110% of what would have been provided in a proposed new development. These units would need to be of an equivalent quality, in the sole determination of the City.
  2. New construction of units of an equivalent quality within the City at a different site, again this would be at the sole discretion of the City.
  3. Participation in the construction of affordable dwelling units of an equivalent quality by another developer on a different site within the City.
  4. An alternative proposed by a developer that directly provides or enables provision of an equivalent amount of affordable housing units within the city.

Given the recent concern that developers have expressed over the draft policy from July 21<sup>st</sup>, and the housing foundations original fees in lieu of proposal, the above would provide the city with more flexibility when negotiating and requiring some form of affordable housing as part of a PUD.

**ATTACHMENTS:**

- Recommended Policy on Affordable Housing
- Memo from the Edina Housing Foundation
- Original Policy considered by the City Council on July 21, 2015



SHELTERING OUR COMMUNITY

4801 WEST 50TH STREET  
EDINA, MINNESOTA 55424  
952-826-0462  
FAX: 952-826-0389

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**TO:** Mayor Hovland and the Edina City Council  
**FROM:** Edina Housing Foundation  
**CC:** Scott Neal, Cary Teague, Joyce Repya  
**RE:** Affordable Housing Policy  
**DATE:** August 25, 2015

Attached is the Edina Housing Foundation's revised Affordable Housing Policy Recommendation. Since submitting our first draft recommendation earlier this year, the foundation board members have reached out to a variety of other cities with affordable housing policies, reviewed a great deal of professional research on the topic, held discussions with staff of the Urban Land Institute, and considered feedback from city staff, the City Council and Mayor.

Based upon all of the above, we'll start out with a few observations:

- Over 500 communities across the country have adopted inclusionary housing ordinances – no two are exactly alike.
- We are NOT recommending an inclusionary housing ordinance, rather just an affordable housing policy.
- This issue is complicated and involved, and some might argue that we should study and review this issue until we have "the perfect policy for Edina." We think that would be a mistake. There is no perfect policy. And delays will impose an opportunity cost of lost affordable housing during this strong redevelopment cycle.
- The attached policy is our best effort to balance our community's need to produce housing affordable to a broader income range of people, while simultaneously not imposing undue costs that might lessen Edina's attractiveness to quality redevelopments.

The remainder of this memo contains our comments and thought process on a variety of items in this policy:

1. We have attempted to keep this policy as succinct and straight-forward as possible, so that staff and City Council would be able to provide this document to potential developers. Our goal here was not to be overly prescriptive in our approach, so that staff can have enough tools and flexibility to work with developers and craft solutions that best work for each individual redevelopment.

2. We reduced the amount of affordable units to 10% from 20%. This was based upon Council's concerns about requiring too much affordability. Our thinking here is to require a smaller minimum amount so as not to over-burden developments with undue costs. However, we still believe that many developers will opt to provide more than these minimum levels because that will allow their developments to qualify for housing tax credits and housing TIF districts.
3. We added "parking reductions" under incentives that the City might consider, as this can also be a significant cost saver.
4. In order to provide City Council and staff with enough flexibility to address a myriad of different situations, we considered options the City might consider in lieu of requiring affordable housing be built in all new developments that request rezoning. We also note that St Louis Park's recently adopted Inclusionary Housing Policy allowed some of these options. Our recommended policy does not contain a "fee-in-lieu" option. This was probably the most controversial item in our policy consideration. We discussed a fee-in-lieu option extensively, and decided not to recommend it for two reasons. First, virtually all professionals we spoke with indicated that if the fee is set too low, the City will end up with cash but very little affordable housing. And second, a fee in lieu discussion is likely to be controversial and encourage long discussion over what the proper level of this fee ought to be. We believe this controversy will simply delay implementation of this important policy and, thus, impose an opportunity cost to the community of lost affordable housing. We believe that the perceived flexibility a fee-in-lieu option might provide is far out-weighed by the costs of the lack of affordable housing built if this provision were included in this policy. Our discussion of a fee-in-lieu included considering the following formula for such a fee: Take the difference between market rents, (assumed to be \$1.90/sq. ft.) compared with affordable rents at the 50% level (the difference was slightly over \$1,000/month, on average for 1, 2, and 3 bedroom units); then capitalize this difference at a current market rate (6% was used); and finally multiply the result by 110% (the additional 10% is to compensate for delays in producing affordable units). This calculation resulted in a hypothetical fee-in-lieu of \$220,000/dwelling unit.
5. Please note that the affordable sales price information was modified slightly to account for bedroom sizes - without this, the likelihood is that developers would propose mostly \$350,000 1 - bedroom units - we overlooked that in our first version of the policy.

# Affordable Housing Policy

## Edina, Minnesota

### Background

Based upon a review of housing trends in Edina, it is apparent that the diversity of the city's housing stock has declined as a result of increasing property values and a reduction in the availability of more modest cost dwellings. Redevelopment has, in many cases, contributed to property value increases that further the difficulty of providing affordable housing in the city. Privately developed new residential housing that is being built in the city generally is not affordable. Many developers are interested in investing in Edina, but few are willing or able to provide affordable housing without encouragement and assistance from the City.

The City recognizes the need to provide affordable housing in order to maintain a diverse population and to provide housing for those who live or work in the city. Since the remaining land appropriate for new residential development is limited, it is essential that a reasonable proportion of such land be developed into affordable housing units. As such, the City of Edina adopts the following Affordable Housing Policy:

### The Policy

1. This policy applies to all new multi-family developments of 20 or more units that require a re-zoning.
2. New rental developments will provide a minimum of 10% of all rentable area at 50% affordable rental rates or 20% of all rentable area at 60% affordable rental rates as defined below.
3. New for sale developments will provide a minimum of 10% of all livable area at affordable sales prices as defined below.
4. New rental housing will remain affordable for a minimum of 15 years, and this requirement will be memorialized by a land use restrictive covenant.
5. Recognizing that affordable housing is created through a partnership between the City and developers, the city will consider the following incentives for developments that provide affordable housing:
  1. Density bonuses
  2. Parking reductions
  3. Tax increment financing
  4. Deferred low interest loans from the Edina Housing Foundation
6. Whereas it is the strong preference of the City that each new qualifying development provide its proportionate share of affordable housing, the City recognizes that it may not be economically feasible or practical in all circumstances to do so. As such, the City reserves the right, in its sole discretion,

to waive this policy (only if circumstances so dictate, as solely determined by the City). In lieu of providing affordable housing in each new qualifying development, the City may consider the following:

1. Dedication of existing units in Edina equal to 110% of what would have been provided in a proposed new development. These units would need to be of an equivalent quality, in the sole determination of the City.
2. New construction of units of an equivalent quality within the City at a different site, again this would be at the sole discretion of the City.
3. Participation in the construction of affordable dwelling units of an equivalent quality by another developer on a different site within the City.
4. An alternative proposed by a developer that directly provides or enables provision of an equivalent amount of affordable housing units within the city.

## Definitions

### **Rental Housing**

Either 10% of all rentable area is both rent restricted and occupied by persons whose income is 50% or less of area median gross income,

Or 20% of all rentable area is both rent restricted and occupied by persons whose income is 60% or less of area median gross income.

Both incomes (adjusted for family size) and rental rates (adjusted for bedroom count and including utilities) are updated annually by the Minnesota Housing Finance Agency (MHFA) and published at [www.mnhousing.gov](http://www.mnhousing.gov). 2015 income and rental limits are as follows:

	Gross Incomes			Gross Rents	
	60%	50%		60%	50%
1 Person	\$36,420	\$30,350	Studio	\$910	\$758
2 Persons	\$41,580	\$34,650	1 Bedroom	\$975	\$812
3 Persons	\$46,800	\$39,000	2 Bedroom	\$1,170	\$975
4 Persons	\$51,960	\$43,300	3 Bedroom	\$1,351	\$1,125
5 Persons	\$56,160	\$46,800	4 Bedroom	\$1,507	\$1,256
6 Persons	\$60,300	\$50,250			

### **Ownership Housing**

10% or more of all livable area is affordable to and initially sold to persons whose income is at or below the levels set in the MHFA's "Startup Program" (first time homebuyer). This program has a sales price limit of \$310,000. The Edina Housing Foundation has set this limit at \$350,000 in consideration of the high prices in Edina. The Foundation would recommend the following sales prices be used as the acquisition limit in this definition:

1 bedroom	\$250,000
2 bedrooms	\$300,000
3+ bedrooms	\$350,000

The 2015 income limits as published on the MHFA website are as follows:

1-2 person household	\$86,600
3+ person household	\$99,500

Income limits and maximum sales prices are updated annually.

See [www.mnhousing.gov](http://www.mnhousing.gov).



Policy Considered  
on 7-21-15

## CITY OF EDINA

### Policy on Affordable Housing For New Multi-Family Developments That Require a Rezoning to a Multi-Family Zoning Districts including Planned Unit Development (PUD)

Whereas, high land values in the City of Edina make it difficult to construct new housing units that are affordably-priced for working families and senior citizens; and

Whereas, few real estate developers have been willing to provide 20% affordable housing in their projects, without assistance from the City; and

Whereas developers are producing new housing at market rates that are out of reach for many households; and

Whereas, the City of Edina needs a sustainable funding source for affordable housing; and

Whereas, the City of Edina would benefit from a more diverse housing stock, by ensuring affordably-priced housing options are available to our workforce population and seniors.

### Background

1. The City of Edina and the Metropolitan Council have worked together and established an affordable housing goal of creating 212 new affordable housing units in Edina by the year 2020. Since 2008, the City Council has approved 168 affordable housing units in the community.
2. The Edina Housing Foundation was established to assist the City to fund housing for low to moderate income families and elderly persons.
3. The Edina Housing Foundation has worked to accomplish these goals in affordable housing. In addition to maintaining existing affordable housing in Edina, since 1986 the Edina Housing Foundation has assisted in providing 366 new affordable housing units in the City of Edina.
4. The City Council requested that the Edina Housing Foundation recommend an affordable housing policy for the City.

### Policy

1. The City Council will require that at least 20% of the total units in new multi-family housing developments over 20 units requiring a rezoning to a multi-family zoning districts, including Planned Unit Development (PUD) be sold or rented at an affordable price as defined below. If no affordable housing is provided on-site, the City will require a one-time fee in lieu of affordable housing for such rezoning. Fees would be based on the average market rates of comparable housing units and negotiated on a project-by-project basis. The fee must be paid prior to issuance of a building permit and will be used to support affordable housing in other developments within the City of Edina.
2. The City will consider financial assistance, including Tax Increment Financing (TIF) in accordance with Minnesota TIF statutes. ~~for projects that include at least 20% of the total units for affordable housing.~~

3. The City will consider higher density or a density bonus for projects that include at least 20% of the total units for affordable housing.
4. The Edina Housing Foundation has stated that they will consider providing financial assistance to new housing projects that include at least 20% of the total units for affordable housing.
5. Affordable housing shall remain affordable for a minimum of 15 years; this requirement shall be memorialized by a Land Use Restrictive Covenant.

**Affordable Housing Definitions:**

**Rental Housing:**

Either 20% of units are both rent restricted and occupied by persons whose income is 50% or less of the area median gross income,

Or 40% or more of units are both rent restricted and occupied by persons whose income is 60% or less of the area median gross income.

Both incomes (adjusted for family size) and rental rates (adjusted for bedroom count and including the cost of utilities) are updated annually and published in the Minnesota Housing website at [www.mnhousing.gov](http://www.mnhousing.gov). 2014 Income and rental limits are as follows:

	<u>Gross Incomes</u>		<u>Gross Rents</u>		
	60%	50%		60%	50%
1 Person	\$34,860	\$29,050	1 Bedroom	\$933	\$778
2 Persons	\$39,840	\$33,200	2 Bedrooms	\$1,120	\$933
3 Persons	\$44,820	\$37,350	3 Bedrooms	\$1,293	\$1,078
4 Persons	\$49,740	\$41,450	4 Bedrooms	\$1,443	\$1,202
5 Persons	\$53,760	\$44,800			
6 Persons	\$57,720	\$48,100			

\*Table to be adjusted annually

**Ownership Housing:**

20% or more of units are affordable to and initially sold to persons whose income is at or below the levels set in the Minnesota Housing "Startup Program" (first time homebuyer). This program has a sales price limit of \$310,000. The Edina Housing Foundation has set this limit at \$350,000 in consideration of the high prices in Edina. The Foundation would recommend that \$350,000 be used as the acquisition limit in this definition. The 2015 income limits as published on the Minnesota Housing website are as follows:

1-2 person household	\$86,600
3 + person household	\$99,500

Income limits and maximum sales prices are updated annually.