CITY OF PLYMOUTH
AGENDA
Special City Council
Public Safety Training Room
3400 Plymouth Boulevard, Plymouth, MN
February 11, 2025, 5:00 PM

1. CALL TO ORDER

2. TOPICS

2.1 Housing Nexus Study

1. Study Session Memo (2-11-2025)
2. Bloomington Nexus Study 11-09-2018
3. Creating and Effective and Competitive Housing Ordinance for Bloomington (DAS)
4. OHO (Bloomington)
5. OHO Incentives Handout Update 3-18-2024 (Bloomington)
6. Memo - Opportunity Housing Ordinance (2024 Update)

2.2 Set future study sessions

1. Calendars

3. ADJOURNMENT

Special City Council
February 11, 2025
Agenda Number: 2.1

To:	Dave Callister, City Manager
Prepared by:	Grant Fernelius, CED Director
Reviewed by:	
Item:	**Housing Nexus Study**

1. Action Requested:
Discuss potential housing study and provide direction to staff on next steps.

2. Background:
At the January 7, 2025 meeting, council requested that staff schedule time to discuss a potential housing study. The attached memo provides additional background information on the topic. Staff is seeking feedback from council on the scope of the study, timing, process and other details.

3. Budget Impact:
N/A

4. Attachments:
1. Study Session Memo (2-11-2025)
2. Bloomington Nexus Study 11-09-2018
3. Creating and Effective and Competitive Housing Ordinance for Bloomington (DAS)
4. OHO (Bloomington)
5. OHO Incentives Handout Update 3-18-2024 (Bloomington)
6. Memo - Opportunity Housing Ordinance (2024 Update)

MEMORANDUM
Planning and Economic Development Department
Housing/HRA Division

DATE: February 11, 2025

TO: Mayor and City Council
Dave Callister, City Manager

FROM: Grant Fernelius, CED Director
Steven Schmidt, Housing Manager

SUBJECT: Discussion of Housing Nexus Study

Introduction

Council has requested an opportunity to discuss the need for a housing nexus study in conjunction with potential changes to the City's Inclusionary Housing Policy that was adopted in 2024. Staff understands that there is particular interest in learning more about the work that was done by the City of Bloomington and its Opportunity Housing Ordinance (OHO) that was developed a few years ago.

Background

In 2018, the City of Bloomington initiated two studies around the creation of an inclusionary housing ordinance. The first study was an analysis of existing inclusionary housing policies from different cities across the country by Daedalus Advisory Services (DAS). The DAS study looked at sample policies, lessons learned, and formulated elements for a draft ordinance. A second study (housing nexus) was completed by BAE Urban Economics (BAE) and looked at the Bloomington housing market and the potential demand for affordable housing generated by new development. Copies of both studies are attached for reference.

Housing Nexus Study

According to the authors, the BAE study was a quantitative analysis of the nexus (or relationship) "…between new market rate rental housing development and the need for additional affordable housing in Bloomington." The underlying theory is that new housing development spurs new household spending which in turn leads to new businesses (or expansion of existing ones) and additional employment. Those new jobs create demand for more housing at various price points, including affordable units. To ensure those units are built, developers are charged a fee for the induced housing demand. The Bloomington study determined that a 9% fee could be charged to market rate developers to account for the additional demand in affordable units.

Cost and Timing of Study

The combined cost of the two studies was $178,300. The DAS study included two phases, $39,900 for the study of sample policies and $47,500 for technical assistance. The BAE study and financial modeling cost $55,340, plus $35,790 in technical assistance. Both firms were selected through a Request for Proposal (RFP) process. Plymouth staff has requested a copy of the RFP to use a template if there is interest in pursuing a study locally. It is also worth noting that Bloomington received $45,000 in Livable Communities Act (LCA) grant from the Met Council to cover a portion of the cost. Plymouth staff did reach out to Met Council staff and inquired about future funding opportunities and was told the agency is planning to conduct its own study for the region soon and is unlikely to fund similar research for an individual community.

In terms of timing, Bloomington issued its RFP in early 2018 and selected its consultants that summer. Work on the two studies began in early fall 2018 with final report completed in November. Work on the OHO ran concurrently with nexus study and the ordinance was adopted in March 2019. Implementation was delayed for the fall of 2019.

Opportunity Housing Ordinance

As part of the nexus study, the City of Bloomington adopted Opportunity Housing Ordinance (OHO) to codify the fee and related requirements into the city's zoning code. A copy of the OHO ordinance is attached. The city also created some zoning incentives to help offset the additional costs of the program. A two-page handout summarizing the various incentives is attached for reference.

Current Status

Bloomington continues to evaluate the program. Attached is a memo from January 2024 outlining the goals of the program along with accomplishments. Bloomington staff indicated that they're in the process of working with a consultant to evaluate the program and make potential updates.

Plymouth Study

Staff is seeking feedback and direction from council on next steps. Among the topics that need to be addressed are following:

- Scope of Study: The Bloomington approach included both a housing nexus study and model ordinance. Does council see value in doing both? What key questions does Council want to seek answers to about this proposed study and ordinance?

- Budget: The city has not set aside funds for this type of study in the current operating budget and would have to re-direct funds for other projects or use HRA funds.

Plymouth Study (cont.)

- Process: Given the potential cost, the City would need to issue an RFP for these services. The HRA and Planning Commission have also expressed interest in this topic. Does the Council want either commission to participate in the process and if so, in what capacity? Is there interest in hearing from other stakeholders including housing developers and affordable housing advocates?

Next Steps

Once Council has addressed the topics noted above, staff could come back with a more definitive timeline and process in the next 45 to 60 days. We look forward to a productive conversation.

bae urban economics

City of Bloomington, Minnesota

Affordable Housing Nexus Study and Feasibility Analysis

November 9, 2019

bae urban economics

November 9, 2019

Eric Johnson
Community Development Director
1800 West Old Shakopee Road
Bloomington, MN 55431-3027
ejohnson@bloomingtonmn.gov

Dear Mr. Johnson:

We are pleased to present the Affordable Housing Nexus Study and Feasibility Analysis report. It has been a pleasure working with you and your staff on this project.

Sincerely,

Matt Kowta

Matt Kowta, MCP
Managing Principal

Aaron Nousaine

Aaron Nousaine, MCRP
Vice President

San Francisco
2600 10th St., Suite 300
Berkeley, CA 94710
510.547.9380

Sacramento
803 2nd St., Suite A
Davis, CA 95616
530.750.2195

Los Angeles
448 South Hill St., Suite 701
Los Angeles, CA 90013
213.471.2666

Washington DC
1400 I St. NW, Suite 350
Washington, DC 20005
202.588.8945

New York City
49 West 27th St., Suite 10W
New York, NY 10001
212.683.4486

www.bae1.com

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INTRODUCTION

This report documents the quantitative nexus, or relationship, between new market rate rental housing development and the need for additional affordable housing in the City of Bloomington. This is done using the industry standard approach of estimating the new employment generated by the new development due to new household spending, then by estimating the likely combined household incomes associated with new worker households. This study also evaluates the cost of providing new affordable housing units and translates those costs to represent the maximum per square foot fee that would need to be assessed on new residential development to adequately offset induced demand for affordable housing. Based on this nexus, the study evaluates the impact of these "maximum justifiable" fees on the financial feasibility of new development. The report concludes with recommendations for development of an inclusionary housing policy and fee schedule that are intended to ensure that the ordinance is justifiable and legally defensible and 2) that impact fees (also known as in-lieu fees) are set at levels that adequately account for the cost of providing affordable housing and encourage on-site production of affordable housing units, while not creating undue constraints to the financial viability of new market rate housing developments.

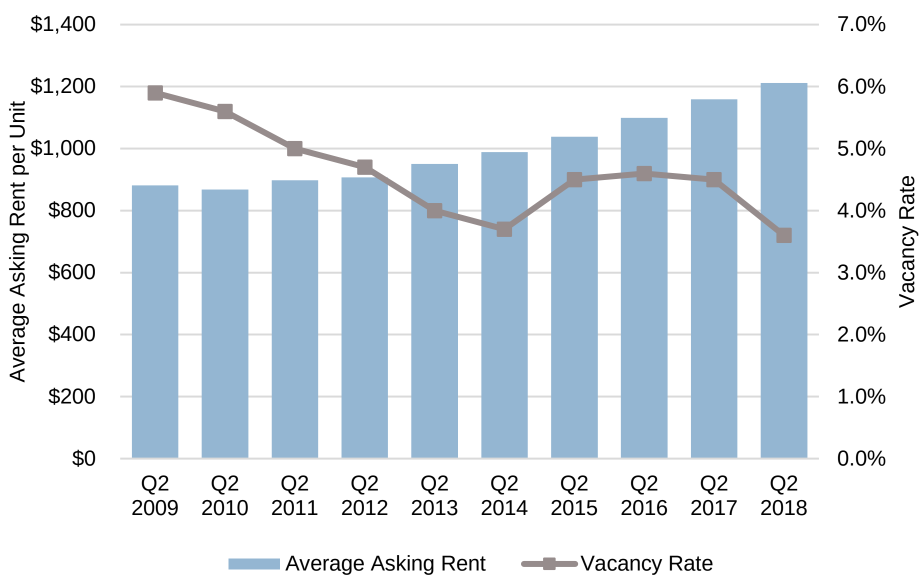
HOUSING NEEDS ASSESSMENT

For the purposes of this research, BAE conducted an abbreviated affordable housing needs assessment intended to provide the City with some insight into the minimum household income that is required to comfortably afford an average market rate rental housing unit. The City also completed a Comprehensive Housing Needs Analysis in May 2018, which provides additional in-depth analysis and is available on the City's website.[1]

Rental Housing Market Overview

Following the onset of the Great Recession in 2008, the average rental rate for multifamily housing in Bloomington remained relatively stable, until roughly 2012 when rates began to increase at an average rate of around five percent per year. As illustrated in Figure 1, average vacancy in Bloomington decreased steadily from 2009 through 2014, before stabilizing, with some fluctuation, at around 4.5 percent between 2014 and 2017. As of the second quarter of 2018, vacancy rates again dropped below four percent.

Figure 1: Multifamily Rental Rate and Vacancy Trends, City of Bloomington, Q2 2009 to Q2 2018



Sources: CoStar, 2018; BAE, 2018.

[1] Maxfield Research & Consulting. (May 2018). *Comprehensive Housing Needs Analysis for the City of Bloomington, Minnesota*. Bloomington, MN: Bloomington Housing and Redevelopment Agency. Available at: https://www.bloomingtonmn.gov/sites/default/files/media/1854-01%20Bloomington%20Housing%20Needs%20Analysis_05_05_2017%20%28002%29_0.pdf

Based on data from CoStar, which tracks rental housing properties with 50 units or more, the majority of the larger multifamily rental complexes in Bloomington include mostly one- and two-bedroom apartments, with studio and three-bedroom units accounting for only 10 percent of the total stock. Vacancy among all unit types is relatively low at 5.5 percent or below. Average market rate rents across all larger complexes range from $935 for a studio to $1,529 for a three bedroom, with one- and two-bedroom units priced in between at $1,100 and $1,351, respectively. The average rental rate for larger complexes increased by 4.6 percent since the second quarter of 2017. The average rental rate for one-bedroom units increased the most at 5.8 percent, while rate increases among other unit sizes were below four percent. For additional details on current rental housing market conditions, please refer to Table 1, below.

Table 1: Multifamily Rental Housing Market Overview, City of Bloomington, Q2 2017 and Q2 2018

City of Bloomington	Studio	1-Bedroom	2-Bedroom	3-Bedroom	All Sizes (a)
Inventory, Q2 2018 (units)	**542**	**4,302**	**3,798**	**348**	**9,173**
Percent of Units (b)	6.0%	47.9%	42.2%	3.9%	100%
Occupied Units	520	4,142	3,661	342	8,842
Vacant Units	22	160	137	6	331
Vacancy Rate	5.4%	4.4%	4.1%	4.5%	4.3%
Avg. Asking Rents, Q2 2017 - Q2 2018					
Avg. Asking Rent, Q2 2017	$906	$1,040	$1,302	$1,473	$1,159
Avg. Asking Rent, Q2 2018	$935	$1,100	$1,351	$1,529	$1,212
% Change Q2 2017 - Q2 2018	3.2%	5.8%	3.8%	3.8%	4.6%
Under Construction, Q2 2018 (units)	32	16	16	0	64
Deliveries, Q1 2010 - Q2 2018 (units)	1,341	763	439	28	2,571

Notes:
(a) The totals for each unit size do not sum to the total for all units because some units in the CoStar database lack classification by number of bedrooms.
(b) Percent of units for which the number of bedrooms is known.

Sources: CoStar, 2018; BAE, 2018.

To identify current average rental rates for newly built rental housing, BAE contacted a selection of newly developed properties that were recommended by City staff. These include Luxembourg, IndiGo Apartments, The Covington, Genesee Apartments and Townhomes, and One Southdale Place. The Preserve at Normandale Lake was also identified but indicated by Staff to be targeted toward the very top of the market and, thus, is not representative of most of the new housing expected to be built in Bloomington in the near future. Table 2, below, reports the average rental rate and square footage by unit type at these properties. Note that the weighted average rents at these new complexes are notably higher than the market-wide average at nearly $1,800 per month, compared to roughly $1,200 per month.

Table 2: Multifamily Rental Housing Market Overview, Selected New Construction, City of Bloomington, August 2018

Unit Type	Total Units	Per Unit Sq. Ft.	Per Unit Rent	Rent Per Sq. Ft.
Studio	85	575	$1,400	$2.43
1-Bedroom	806	830	$1,629	$1.96
2-Bedroom	457	1,176	$2,086	$1.77
3-Bedroom	20	1,391	$2,233	$1.60
All Units	**1,368**	**938**	**$1,776**	**$1.89**

Note:
(a) Based on a survey of the following projects:

The Preserve at Normandale Lake
Luxembourg
IndiGO Apartments
The Covington
Genesee Apartments & Townhomes
One Southdale Place

Sources: Apartment Complex Owners and Managers, 2018; BAE, 2018.

Rental Housing Affordability

To assess the relative affordability of rental housing in Bloomington, BAE calculated what households at different income levels could afford to pay. This analysis assumes that households may reasonably dedicate up to 30 percent of their income to housing without becoming overly cost burdened. This is consistent with applicable local, state, and federal standards. The analysis also accounts for a reasonable utility allowance using data published by HousingLink.org for the Bloomington Housing and Redevelopment Agency (HRA).[2]

Special Note on Income Limits

There are a wide variety of income limits published by various state and federal agencies. The most common source for data on the maximum income for households within the commonly accepted income categories (i.e., extremely low-, very low-, low-, moderate-, and above moderate-income) is the U.S. Department of Housing and Urban Development (HUD). HUD publishes income limits annually for two of its largest funding programs, the Home Investment Partnerships Program (HOME) and the Community Development Block Grant (CDBG) Program. HUD uses a simple formula to calculate the maximum household income within each income category by household size, but also makes adjustments to the income limits based on a variety of factors, including accounting for high-cost markets. The income categories are defined as a percentage of the HUD Adjusted Median Family Income (HAMFI). HUD publishes income limits for the extremely low- (30 percent of HAMFI), very low- (50 percent of HAMFI), and low-income (80 percent of HAMFI) categories, as well as a fourth breakout for households earning 60 percent of HAMFI. HUD does not typically report the median income by household size, except for four-person households. The use of various adjustments, as well as the lack of

[2] Available at: https://www.housinglink.org/SubsidizedHousing/HousingAuthorityWaitingList/bloomington-hra

published median income data, makes it difficult to use the HUD income limits for analyses that do not rely on the standard income categories provided in the dataset.

For this analysis, the City of Bloomington wanted to evaluate what an ideal income threshold would be for use in an inclusionary housing ordinance (IHO). This required BAE to calculate income limits for non-standard income categories as a percentage of the area median income (AMI), such as moderate-income (120 percent of AMI). With the City's approval, BAE chose to use income limits for Hennepin County that are published by Minnesota Housing, the state's housing finance agency.[3] The income limits used are effective as of April 1, 2018 and are for projects placed in services on or after that date (Table K).

Affordable Rental Rates

Using the income limits from Minnesota Housing and the Bloomington HRA utility allowances, BAE calculated the maximum rental rate that could be considered affordable to households within an array of income categories by unit size. The analysis assumes that households of different sizes can occupy different sized units, assuming either one person per bedroom or one person per bedroom plus one additional resident (e.g., two parents and one child). Based on a comparison between the affordable rental rates reported in Table 3 and the average rental rates reported in Table 1, BAE determined that households at 60 percent of AMI and below would struggle to afford an average priced housing unit, regardless of unit size, without incurring an undue housing cost burden or living in overcrowded conditions.[4] This means that households earning 60 percent of AMI or below are likely to struggle to locate and secure market rate rental housing in Bloomington that is reasonably affordable, either in newly developed or existing properties. The data indicate that households earning the median income could likely afford the current weighted average rent for newly constructed studio or one-bedroom units, while two- and three-bedroom units are not affordable at median incomes, but area affordable to moderate-income households (120 percent of AMI) and above.

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[3] Available at: http://www.mnhousing.gov/wcs/Satellite?cid=1362997094928&pagename=External%2FPage%2FEXTStandardLayout

[4] Households face an undue cost burden when housing costs, including cash rent and utilities, exceed 30 percent of income. Overcrowding is often defined in two different ways. The definition used here specifies that a household is overcrowded if the number of persons living in the unit exceeds one person per bedroom, plus one.

Table 3: Estimated Affordable Rental Rates, Hennepin County, 2018 (Page 1 of 2)

Income Category (a)	Income Limits/Household Size				
	1 Person	2 Person	3 Person	4 Person	5 Person
Median Family Income: $94,300					
Extremely Low (30% AMI)	$19,830	$22,650	$25,470	$28,290	$30,570
Very Low (50% AMI)	$33,050	$37,750	$42,450	$47,150	$50,950
60% AMI	$39,660	$45,300	$50,940	$56,580	$61,140
Low (80% AMI)	$52,880	$60,400	$67,920	$75,440	$81,520
Median (100% AMI)	$66,100	$75,500	$84,900	$94,300	$101,900
Moderate (120% AMI)	$79,320	$90,600	$101,880	$113,160	$122,280

Affordable Rents (b)	Unit Size				
	Studio	1-Bedroom	2-Bedroom	3-Bedroom	4-Bedroom
Utility Allowance (c)	**$76**	**$86**	**$106**	**$114**	**$131**
Extremely Low (30% AMI)					
1-Person	$420	$410			
2-Person		$480	$460		
3-Person			$531	$523	
4-Person				$593	$576
5-Person					$633
Very Low (50% AMI)					
1-Person	$750	$740			
2-Person		$858	$838		
3-Person			$955	$947	
4-Person				$1,065	$1,048
5-Person					$1,143
60% AMI					
1-Person	$916	$906			
2-Person		$1,047	$1,027		
3-Person			$1,168	$1,160	
4-Person				$1,301	$1,284
5-Person					$1,398
Low (80% AMI)					
1-Person	$1,246	$1,236			
2-Person		$1,424	$1,404		
3-Person			$1,592	$1,584	
4-Person				$1,772	$1,755
5-Person					$1,907
Median (100% AMI)					
1-Person	$1,577	$1,567			
2-Person		$1,802	$1,782		
3-Person			$2,017	$2,009	
4-Person				$2,244	$2,227
5-Person					$2,417
Moderate (120% AMI)					
1-Person	$1,907	$1,897			
2-Person		$2,179	$2,159		
3-Person			$2,441	$2,433	
4-Person				$2,715	$2,698
5-Person					$2,926

- Continued on Next Page -

Sources: Minnesota Housing, Multifamily Tax Subsidy Projects, Table K, 2018; HousingLink.org, Bloomington Housing and Redevelopment Authority, Utility Allowance, 2018; Apartment Owners and Managers, 2018; BAE, 2018.

Table 3: Estimated Affordable Rental Rates, Hennepin County, 2018 (Page 2 of 2)

Notes:

(a) Based on the Minnesota Housing Finance Agency Housing Tax Credits and Tax Exempt Bond Income and Rent Limits for 2018.

(b) Affordable rents equal up to 30 percent of gross monthly income, minus a utility allowance.

(c) Based on the utility allowance published by HousingLink.org for the Bloomington Housing and Redevelopment Agency (HRA). Includes all electric utilities, except for natural gas heat and water heating, with water, sewer, and trash collection included in the monthly rental rate.

Sources: Minnesota Housing, Multifamily Tax Subsidy Projects, Table K, 2018; HousingLink.org, Bloomington Housing and Redevelopment Authority, Utility Allowance, 2018; Apartment Owners and Managers, 2018; BAE, 2018.

NEXUS ANALYSIS FOR NEW HOUSNG

This following chapter quantifies the link between new rental residential development and changes in demand for additional below market rate (BMR) housing. The resultant demand for BMR housing, as well as the estimated cost of providing BMR units, are used to estimate the per square foot fee that could be levied, allowing the City of Bloomington to subsidize new BMR housing development, thus offsetting the new induced affordable housing demand.

The Nexus Methodology

The current industry standard methodology for conducting residential nexus analysis is typically broken down into the following five steps:

1. Identify the number of new housing units included in the new market rate development and to identify the target pricing (i.e., average rental rate).

2. Estimate the minimum income associated with new resident households based on standard affordability criteria (i.e., 30 percent of income to housing, including rent and a reasonable utility allowance).

3. Identify how new household spending associated with occupant households will contribute to local job growth, particularly in the retail and service sectors.

4. Convert jobs to worker households, identifying the number of new worker households by income level, which is synonymous with new housing demand.

5. Calculate the maximum justifiable fee based on the estimated financing gap per affordable housing unit demanded by new worker households per market rate unit.[5]

Estimated New Housing Demand

As noted above, the first step in this analysis is to determine the affordable housing need generated by new rental housing development. To do this, BAE uses the weighted average rental rate among selected new rental housing developments as a benchmark for the current market rate rents that can be supported within newly constructed apartment projects. Assuming that each household spends no more than 30 percent of their income on housing, BAE then estimates the household income associated with newly occupied units. BAE then uses the Impacts Analysis for Planning (IMPLAN) software package to identify the number of new jobs by industry that would be created due to new household spending. BAE then uses

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[5] The affordable housing financing gap is the difference between the cost of developing a given unit, minus the value that the unit can support when occupied at below market rates. The financing gap for a rental unit is equal to the difference between the cost of development, minus the value of the permanent loan that could be supported based on the net operating income of the unit (i.e., gross rental receipts, minus operating expenses).

the U.S. Census Bureau's Public Use Microdata Sample (PUMS) dataset to identify the combined household incomes (i.e., for households with multiple wage earners) associated with households containing workers employed in the impacted industry sectors, to identify the portion of new workforce housing demand that would require below market rate housing.

Estimated Household Incomes in New Market Rate Housing Developments

Expenditures made by households who occupy newly constructed market rate housing units are the first in a chain of actions that lead to additional induced demand for new affordable housing for workforce households that cannot afford to rent market rate housing. Household expenditures on goods and services are correlated to household income levels, and the cost of housing dictates the income necessary to afford that housing without overpayment.

Table 4 presents the annual household income required to rent a newly constructed multifamily apartment unit in Bloomington. Assuming that households spend no more than 30 percent of their income on housing costs, including rent and utilities, the income required to rent a newly constructed two-bedroom multifamily unit in Bloomington is $75,842 per year.

Table 4: Household Income Required to Rent New Housing

Average Monthly Rent (a)	$1,800
Utility Cost (b)	$96
Monthly Housing Costs for New Unit	$1,896
Annual Housing Costs	$22,752
Household Income Required (c)	$75,840
Number of Households in Development (d)	100
Aggregate Household Income (Millions)	$7,584,000

Notes:
(a) Based on the weighted average rental rate at a selection of newly constructed projects identified by City staff as likely to be representative of future development projects in the City of Bloomington.
(b) Based on the utility allowance published by HousingLink.org for the Bloomington Housing and Redevelopment Agency (HRA). The figure used here represents the mid-point between the reported utility allowance for one- and two-bedroom apartment units. Includes all electric utilities, except for natural gas heat and water heating, with water, sewer, and trash collection included in the monthly rental rate.
(c) Assumes that housing costs do not exceed: 30% of income
(d) This analysis assumes that the hypothetical development project contains a total of 100 units. This assumption provides for ease of analysis and does not impact the results of the analysis.

Sources: HousingLink.org, Bloomington Housing and Redevelopment Authority, Utility Allowance, 2018; BAE, 2018.

Estimate Impacts on Industries and Employment

Having estimated the household incomes associated with the rental of new market rate housing in Bloomington, the next step is to identify how the household expenditures of those new households translate to new demand for goods and services. That new spending consequently supports new jobs in goods and service-producing industries. To estimate the effect of new household spending on employment generation, this nexus study uses IMPLAN, a widely-accepted and utilized input-output economic impact modeling software and data package. At the heart of the model is an input-output dollar flow table. For a specified region, the input-output table accounts for all dollar flows between different sectors of the economy, including households, businesses, and the government. Using this information, the IMPLAN software models the way income injected into the economy is spent and re-spent across all sectors, generating waves of economic activity, or so-called "economic multiplier" effects. Appendix A provides a summary of the IMPLAN economic impact software and data package.

The IMPLAN model measures economic activity using a number of different metrics, including jobs, and is able to estimate the number of jobs generated by a given economic "event." For the purpose of this analysis, the economic "event" is household spending by occupants of new residential units in Bloomington. For example, by expanding the local demand for grocery store products, these household expenditures generate additional jobs for cashiers and courtesy clerks at grocery stores patronized by the households. The process initiated by household expenditures continues as these workers and the businesses they work for spend money in subsequent transactions, supporting employment at places other than the initial point of sale, such as wholesalers supplying retail stores, or truck drivers delivering goods to those stores. In turn, these businesses and workers spend money to generate additional activity in the local economy. These are all parts of the impacts linked to the household expenditures that IMPLAN tracks through the economy of the specified region; in this case, Hennepin County.

The IMPLAN model is customized to reflect the economic characteristics of a specified region. The nexus analysis considers regional employment generation, rather than jobs generated in Bloomington exclusively, because household spending in Bloomington creates jobs throughout the region. If the analysis solely considered workers living in Bloomington, it would effectively discount the needs of worker households that do not have incomes necessary to live in Bloomington. In other words, the analysis examines employment effects in Bloomington and beyond its borders linked to housing development in the City in order to address the City's "fair share" of regional housing need. Housing need is based on the number of households rather than the number of jobs. As such, jobs are translated into households by dividing the number of jobs in each income category by the average number of workers per worker household in Hennepin County.[6]

Estimate of Household Incomes of Workers in Affected Industries

Worker households often have more than one person who contributes to household income.[7] In some instances, economists estimate household income for workers by simply multiplying worker earnings, by industry, by the average number of workers per worker household. This methodology relies on the unsatisfactory assumption that, on average, each employed household member generates the same amount of income as other workers in his or her

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[6] Average workers per worker household from American Community Survey (ACS), 2012-2016.

[7] A worker household is defined as a household with one or more employed persons. They may be wage and salary workers, or self-employed/sole proprietors.

household. Given the diversity of household composition, this assumption is not appropriate. For example, a household may include a teacher and a doctor, with significantly different individual earnings.

To address this issue, this analysis makes use of a detailed data set published by the U.S. Census Bureau called the Public Use Microdata Sample (PUMS). The dataset is derived from a five percent sample of all households published as part of the American Community Survey (ACS). This data source allows cross-tabulation of variables, such as industry of employment and household income. This analysis uses the most recent available PUMS data for Hennepin County, based on the 2012 through 2016 five-year ACS survey period.

BAE queried the PUMS data to identify the number of households, by income category (controlling for household size), by industry. This generated a household income distribution by industry, constructed based on income categories, as defined by Minnesota Housing, benchmarked against AMI, and adjusted based on household size and percentage of that AMI. The resulting household income distribution by industry is shown below, in Table 5.

Housing Demand Generated by Household Expenditures by Income Level

As mentioned above, new worker housing demand is a function of the level of household spending associated with households that occupy new market rate housing units. Table 6 applies the income distribution by industry to the number of jobs generated in each industry as a result of spending by households residing in new rental housing units. As shown, the new household spending associated with a new 100-unit apartment complex supports a total of 35 new worker households across various income groups, with approximately nine of those households earning incomes of 60 percent of AMI or below.

Table 5: Household Income Level by Industry

NAICS Code	Industry	Extremely Low (30% AMI)	Very Low (50% AMI)	(60% AMI)	Low (80% AMI)	Moderate (120% AMI)	Above Moderate (>120% AMI)	Total
		Estimated Household Income as a Percent of AMI (a)						
Private Sector								
11, 21	Agriculture & Natural Resources	3.8%	1.1%	6.3%	8.5%	22.0%	58.3%	100%
23	Construction	5.1%	6.9%	3.8%	10.5%	25.9%	47.7%	100%
31-33	Manufacturing	3.0%	5.5%	4.0%	7.8%	21.2%	58.4%	100%
42	Wholesale Trade	3.6%	2.9%	3.3%	9.1%	21.7%	59.4%	100%
44-45	Retail Trade	5.5%	9.6%	5.7%	10.2%	23.1%	45.9%	100%
48-49, 22	Transportation, Warehousing, & Utilities	4.3%	10.4%	5.9%	8.7%	25.1%	45.5%	100%
51	Information	2.2%	3.8%	6.2%	9.0%	23.3%	55.4%	100%
52-53	Finance, Insurance, & Real Estate	1.9%	3.8%	2.9%	8.7%	18.1%	64.6%	100%
54-55	Professional, Scientific, & Technical Services, & Mgmt of Companies	2.1%	2.9%	2.3%	6.1%	17.8%	68.8%	100%
56	Admin, Support, & Waste Mgmt Srvcs	10.6%	13.1%	4.8%	15.1%	20.6%	35.8%	100%
61	Educational Services	6.9%	9.2%	3.3%	9.6%	20.8%	50.2%	100%
62	Health Care & Social Assistance	6.1%	8.6%	6.5%	10.5%	19.7%	48.5%	100%
71-72	Leisure & Hospitality	10.5%	14.2%	7.4%	13.8%	22.3%	31.8%	100%
81	Other Services Except Public Admin	6.2%	12.1%	3.9%	14.3%	22.2%	41.3%	100%
All Government	Government	3.8%	4.7%	3.3%	8.5%	24.7%	55.0%	100%

Note:

(a) Based on a cross tabulation of Public Use Microdata Samples (PUMS) from the 2012-2016 American Community Survey. These incomes w ere compared to household income limits published by the Minnesota Housing Finance Agency for 2016 and as calculated by BAE to determine the percentage of households falling into each income category. The analysis controlled for household size, to address the varying HUD income limits for each household size.

Sources: American Community Survey, 2012-2016 Public Use Microdata Sample, 2018; Minnesota Housing Finance Agency, 2018; IMPLAN, 2018; BAE, 2018.

Table 6: Employment Generation by Income Level from New Rental Housing Project with 100 Units

			Estimated Jobs by Percent of AMI (a)					
NAICS Code	**Industry**	**Total Jobs** (b)	**Extremely Low** *(30% AMI)*	**Very Low** *(50% AMI)*	*(60% AMI)*	**Low** *(80% AMI)*	**Moderate** *(120% AMI)*	**Above Moderate** *(>120% AMI)*
Private Sector								
11, 21	Agriculture & Natural Resources	0.01	0.00	0.00	0.00	0.00	0.00	0.01
23	Construction	0.47	0.02	0.03	0.02	0.05	0.12	0.23
31-33	Manufacturing	0.23	0.01	0.01	0.01	0.02	0.05	0.14
42	Wholesale Trade	1.40	0.05	0.04	0.05	0.13	0.30	0.83
44-45	Retail Trade	8.64	0.47	0.83	0.49	0.88	2.00	3.96
48-49, 22	Transportation, Warehousing, & Utilities	1.53	0.07	0.16	0.09	0.13	0.38	0.70
51	Information	0.92	0.02	0.03	0.06	0.08	0.21	0.51
52-53	Finance, Insurance, & Real Estate	7.83	0.15	0.30	0.22	0.68	1.42	5.06
54-55	Professional, Scientific, & Technical Services, & Mgmt of Companies	2.79	0.06	0.08	0.06	0.17	0.50	1.92
56	Admin, Support, & Waste Mgmt Srvcs	2.82	0.30	0.37	0.13	0.43	0.58	1.01
61	Educational Services	1.97	0.14	0.18	0.06	0.19	0.41	0.99
62	Health Care & Social Assistance	12.58	0.77	1.08	0.82	1.33	2.48	6.11
71-72	Leisure & Hospitality	9.14	0.96	1.30	0.68	1.26	2.04	2.91
81	Other Services Except Public Admin	6.72	0.42	0.81	0.27	0.96	1.49	2.77
All Government Employment		0.19	0.01	0.01	0.01	0.02	0.05	0.10
	Total Jobs	**57.26**	**3.44**	**5.25**	**2.97**	**6.32**	**12.04**	**27.24**
	Workers per Households (c)	1.65	1.23	1.38	1.43	1.45	1.69	1.88
	Number of Households	**34.66**	**2.80**	**3.79**	**2.08**	**4.34**	**7.12**	**14.53**
	Percent of Base Project (d)		**2.8%**	**3.8%**	**2.1%**	**4.3%**	**7.1%**	**14.5%**
	Cumulative		*2.8%*	*6.6%*	*8.7%*	*13.0%*	*27.3%*	*34.7%*

Notes:

(a) Based on 2016 Tax Credit Income Limits; 80% to 120% limits calculated by BAE.

(b) Job estimates are the output of the IMPLAN model, and shows employment generated by household spending. Columns to right may not sum to Total Jobs due to independent rounding.

(c) Average number of workers per worker household by income category calculated based on American Community Survey PUMS Analysis, 2012-2016.

(d) Represents induced workforce housing demand within each income bracket as a percentage of the original project (i.e., 100 market rate units).

Sources: American Community Survey, 2012-2016 Public Use Microdata Sample, 2018; Minnesota Housing Finance Agency, 2018; IMPLAN, 2018; BAE, 2018.

Cost to Provide Affordable Workforce Housing

This section describes the methodology used to estimate subsidies needed to provide affordable housing, in the form of below market rate rental apartments. As discussed earlier in this report, there are standard criteria for estimating the maximum monthly rent that a household at a given income level can reasonably afford without incurring excessive costs. The accepted methodology for calculating rental housing subsidies is to compare the estimate cost to develop a given housing unit with the maximum permanent loan amount that can be supported based on the rent that households at the target income level can afford to pay. The remaining gap is then assumed to be equal to the subsidy that would need to be secured by a developer in order to construct the unit.

Cost to Provide Affordable Rental Units

Table 3, provided earlier in this report, calculates the maximum affordable monthly rent that households at each income level can afford to pay based on standard affordability criteria, which calls for renters to spend no more than 30 percent of their household income on monthly rent and utilities. The resulting figures represent the range of maximum monthly rents that an affordable housing operator could charge tenants at each income level.

Table 7 documents a series of calculations that estimate the net operating income that an affordable housing developer would earn, when renting apartments at the restricted rent levels, for households at each income level. The net operating income (NOI) is equal to total scheduled rents, less a vacancy allowance and operating expense charge. NOI ranges from negative $119 per month (i.e., operating subsidy required from other sources) to $1,460 per month, for units rented to extremely low- and moderate-income households, respectively.

The net operating income determines the amount of money that an affordable housing developer can borrow in order to secure funding to develop affordable housing. This amount is a function of the loan underwriting terms for the developer's permanent mortgage. Table 7 assumes prevailing bank lending terms, including a 1.15 debt service coverage ratio, a 30-year loan term, and a fixed interest rate of 4.75 percent per year. A debt service coverage ratio of 1.15 means that the project's monthly net operating income must equal 1.15 times the monthly required loan payment. Table 7 shows that the monthly supportable debt service per unit ranges from $0 for an extremely low-income unit to $1,270 for a moderate-income unit. Based on the estimated monthly debt service amounts and the loan term and interest rate, Table 7 reports that the maximum supportable loan amounts for apartment units range from $0 for the extremely low-income unit to $243,513 for the moderate-income unit.

Next, Table 7 presents an estimated development cost of $259,784 per workforce apartment unit, based on *2019 Housing Tax Credit Cost Containment Thresholds* published by Minnesota Housing. Then, the bottom line of Table 7 presents the results from subtracting the supportable loan amounts for each household income level from the estimated apartment construction cost, yielding financing gaps that range from $259,784 per unit for extremely low-income units, to $16,271 for moderate-income units.

Table 7: Financing Gap, Rental Housing

	Income Level				
	Extremely Low *(30% AMI)*	Very Low *(50% AMI)*	*(60% AMI)*	Low *(80% AMI)*	Moderate *(120% AMI)*
Household Income Limit (a)	$22,650	$37,750	$45,300	$60,400	$90,600
Maximum Affordable Monthly Rent Per Unit (b)	$480	$858	$1,047	$1,424	$2,179
Monthly Operating Expenses (c)	$566	$566	$566	$566	$566
Vacancy (d)	7%	7%	7%	7%	7%
Net Operating Income Per Unit (e)	($119)	$232	$407	$758	$1,460
Net Operating Subsidy from Other Sources (f)	$119	$0	$0	$0	$0
Monthly Supportable Debt Service Per Unit (g)	$0	$201	$354	$659	$1,270
Loan Amount (h)	$0	$38,618	$67,793	$126,238	$243,513
Affordable Unit Development Cost (i)	$259,784	$259,784	$259,784	$259,784	$259,784
Financing Gap Per Affordable Unit (j)	**$259,784**	**$221,166**	**$191,991**	**$133,546**	**$16,271**

Notes:
(a) Based on the Minnesota Housing Finance Agency Housing Tax Credits and Tax Exempt Bond Income and Rent Limits for 2018 assuming an average tw o-person household.
(b) Affordable rents equal up to 30 percent of gross monthly income, minus a utility allow ance based on the utility allow ance published by HousingLink.org for the Bloomington Housing and Redevelopment Agency (HRA). Includes all electric utilities, except for natural gas heat and w ater heating, w ith w ater, sew er, and trash collection included in the monthly rental rate.
(c) Based on an average expense ratio of 35 percent for units rented at the moderate income level.
(d) Based on the standard underw riting criteria for tax credit affordable housing as reported by Minnesota Housing.
(e) Affordable monthly rent minus operating expenses and vacancy.
(f) Operating subsidy is necessary for units that generate a negative net operating income based on the restricted rent level.
(g) Net operating income plus operating subsidy, divided by the debt coverage ratio: 1.15
(h) Assumes the follow ing financing terms:

Interest Rate	4.75%	
Term of Loan	30	years

(i) Based on the 2019 Housing Tax Credit Cost Containment Thresholds, as published by Minnesota Housing.
(j) Total development cost per unit minus the per unit supportable loan amount.

Sources: Minnesota Housing, Multifamily Tax Subsidy Projects, Table K, 2018; HousingLink.org, Bloomington Housing and Redevelopment Authority, Utility Allow ance, 2018; BAE, 2018.

Maximum Justifiable Fees

Table 8 8 synthesizes information from Table 3 through Table 7, to calculate the maximum justifiable housing impact, or in-lieu, fees that could be charged to market rate housing developers to offset the costs associated with of satisfying new induced housing demand. The upper part of the table summarizes the estimated new induced housing demand, by income level, resulting from construction and occupancy of 100 new market rate rental housing units. Note that these values are cumulative. For example, to identify the estimated induced demand for housing among households earning 60 percent of AMI or less, sum the reported values for the three income categories ranging from 30 percent to 60 percent of AMI. The second section reports the estimated average financing gap per affordable unit, by income level. The third section shows the total dollar value associated needed to close the financing gap for the newly demanded housing units. The fourth section calculates the relative fee that could be charged per market rate housing unit by dividing the total financing gap by 100. BAE also estimated the per square foot equivalent, assuming an average unit size of 938 square feet for new market rate construction. Note, again, that the maximum justifiable fee estimates are cumulative. Thus, if the inclusionary housing policy is ultimately designed to offset the costs associated with providing housing to households earning 60 percent of AMI or less, recognizing that households earning more than 60 percent of AMI can likely secure market rate housing, it would be appropriate to sum the maximum justifiable fee estimates associated with the income levels equal to 60 percent of AMI or less. In this example, the maximum justifiable fee would equal approximately $19,663 per market rate unit, or $20.97 per leasable square foot within the market rate component of a project.

Table 8: Maximum Affordable Housing Impact/In-Lieu Fee Calculation

New Employee Households (a)		
Extremely Low (30% AMI)	2.80	
Very Low (50% AMI)	3.79	
(60% AMI)	2.08	
Low (80% AMI)	4.34	
Moderate (120% AMI)	7.12	
Total, Affordable Housing Need	**20.14**	
Financing Gap Per Unit		
Extremely Low (30% AMI)	$259,784	
Very Low (50% AMI)	$221,166	
(60% AMI)	$191,991	
Low (80% AMI)	$133,546	
Moderate (120% AMI)	$16,271	
Affordability/Financing Gap (a)(b)		
Extremely Low (30% AMI)	$728,374	
Very Low (50% AMI)	$838,638	
(60% AMI)	$399,265	
Low (80% AMI)	$580,100	
Moderate (120% AMI)	$115,837	
Total, Affordability/Financing Gap	**$2,662,214**	
Max. Justifiable Fee (c)	**Per Market Rate Unit**	**Per Market Rate Sq. Ft.** (d)
Extremely Low (30% AMI)	$7,284	$7.77
Very Low (50% AMI)	$8,386	$8.94
(60% AMI)	$3,993	$4.26
Low (80% AMI)	$5,801	$6.19
Moderate (120% AMI)	$1,158	$1.24

Notes:
(a) Per 100 market rate housing units.
(b) Calculated by multiplying the number of w orker households at each income level by the financing gap per unit at each affordability level.
(c) To identify the fee sufficient to address demand across a range of incomes, sum the values for each target income category.
(d) Assumes an average market rate unit size, across all unit types, of approximately 938 square feet.

Sources: BAE, 2018.

FINANCIAL FEASIBILITY ANALYSIS

This chapter presents the results of preliminary feasibility analysis for prototype projects completed by BAE, and then discusses commentary received from the development community regarding the methodology and findings from the preliminary analysis.

Methodology and Analysis

The following financial feasibility analysis uses static pro-forma financial modeling techniques, which involve estimating the developer's costs to undertake the project and the value of the completed projects, in order to calculate the estimated profit accruing to the developer.

At the direction of City staff, BAE conducted this analysis using three different rental housing prototype projects. These include a "low-rise" prototype on 3.44 acres at 25 dwelling units per acre (du/a), a "mid-rise" prototype on 4.59 acres at 60 du/a, and a "high-rise" prototype on 2.75 acres at a density of 90 du/a. The low-rise prototype is intended to represent the type of rental apartment housing that Bloomington has typically seen built during prior cycles, while the mid-rise prototype represents the type of multifamily housing that is more commonly being built within the current market. The high-rise prototype is intended to represent a type of multifamily development that the City would like to see more of in the near future, as the market dictates. The purpose of these three prototypes is to help the City better understand how an inclusionary housing requirement may reasonably impact profitability, making sure that the policy requirements do not unduly burden developers while encouraging the production of the required below market-rate housing.

Assuming that rental housing prices and consumer preferences regarding unit size and finish quality are dictated by consumers and the market et. al, this analysis uses the same basic distribution of units by size and price for each of the three prototypes. The unit size distribution and pricing are based on the characteristics of the newly constructed apartment projects summarized in Table 2. Parking requirements are as estimated by the City. The City of Bloomington currently offers a variety of "flexibility measures" with regard to parking requirements. The total off-street parking requirements applied here account for a typical package of flexibility measures and a typical average number of spaces per unit based on a review of recently approved projects. Development and financing cost information for each prototype was collected through interviews with developers from throughout the Minneapolis-St. Paul region. Wherever possible, BAE uses cost estimates specific to developments in Bloomington, though for some line items, regional estimates were considered adequate, due to the presence of a regional market for construction labor and materials, for example.

As reported in Table 9, the low-rise development prototype is currently the most profitable with a yield on cost (YOC) of 6.53 percent.[8] This is just over the minimum hurtle rate of return necessary for a regional developer to consider moving forward with the project of 6.25 percent. By comparison, the mid-rise prototype provides a YOC of 4.55 percent, while the high-rise prototype provides the lowest overall YOC of 3.98 percent. These results generally highlight that the current returns to multifamily rental housing development are relatively small. Nonetheless, BAE estimates that under baseline conditions, the low-rise rental housing project that is subject to the inclusionary housing policy could reasonably absorb up to an additional $9,000 of cost, per market rate unit, in the form of an affordable housing impact, or in-lieu, fee charge. At this level, the YOC for the low-rise development would be reduced to the minimum acceptable level of 6.25 percent.

Please note, however, that there are mid-rise development projects that were recently constructed, or are under development, in Bloomington. There are a number of possible explanations for why the pro-forma modeling exercise differs from real life experience. For example, the unit size distribution for at least one of the known mid-rise projects skews more toward studio and one-bedroom units, compared to the unit size distribution used for this analysis, though the assumptions used here are based on a review of recently developed projects. Assuming sufficient market demand for such units, smaller sized units tend to be less costly to build per unit (even though the per square foot cost is typically higher) and more revenue efficient (i.e., higher rent per square foot). Also, a number of the projects identified in this research also received additional incentives and financial support from local governments, including regulatory relief and subsidy by-way of tax increment financing (TIF). Also, depending on when the developer of the property acquired their land, the land costs associated with the pro-forma financial modeling exercise may overstate such costs, as the model uses an estimate of the current average market rate land price per housing unit.

[8] Yield on Cost (YOC) is defined as net operating income (NOI) divided by total development cost.

Table 9: Static Proforma Feasibility Analysis for Low-, Mid-, and High-Rise Rental Housing (Page 1 of 2)

Development Program (a)

Development Assumptions	Low Rise	Mid Rise	High Rise
Site Size (Acres)	3.44	4.59	2.75
Density (Units/Acre)	25	60	90
Number of Units	86	275	247
Studio	*5*	*17*	*15*
1-Bedroom	*51*	*164*	*148*
2-Bedroom	*28*	*91*	*82*
3-Bedroom	*2*	*3*	*2*
Average Rental Rate	$1,762	$1,756	$1,755
Studio	*$1,460*	*$1,460*	*$1,460*
1-Bedroom	*$1,570*	*$1,570*	*$1,570*
2-Bedroom	*$2,130*	*$2,130*	*$2,130*
3-Bedroom	*$2,250*	*$2,250*	*$2,250*
Average Unit Size	933	927	926
Studio	*600*	*600*	*600*
1-Bedroom	*800*	*800*	*800*
2-Bedroom	*1,200*	*1,200*	*1,200*
3-Bedroom	*1,400*	*1,400*	*1,400*
Leasable Area (Sq. Ft.)	80,200	254,800	228,600
Common Area Adjustment	*30%*	*30%*	*30%*
Gross Area (Sq. Ft.)	104,260	331,240	297,180
Off-Street Parking Standards (b)	168	534	479
Studio (1.8 per unit)	9	30.6	27
1-Bedroom (1.8 per unit)	91.8	295.2	266.4
2-Bedroom (2.2 per unit)	61.6	200.2	180.4
3-Bedroom (2.6 per unit)	5.2	7.8	5.2
Average Approved Reduction (c)	10%	15%	20%
Required Off-Street Parking	151	454	383
Spaces Per Unit	*1.75*	*1.65*	*1.55*

- Notes on Following Page -

Major Assumptions

Development Cost Factors	Low Rise	Mid Rise	High Rise
Land Acquisition (Per Unit)(d)	$31,400	$31,400	$31,400
Site Preparation (Per Site Sq. Ft.)	$10	$8	$6
Parking (Per Space)	$7,000	$20,000	$20,000
Hard Cost (Per Leasable Sq. Ft.)	$122	$190	$210
Permit & Fees (Per Unit)	$7,415	$7,915	$8,415
Housing Impact Fee (Per Unit)	*$0*	*$0*	*$0*
CitySAC Fee (Per Unit)(e)	*$1,415*	*$1,415*	*$1,415*
All Other Fees (Per Unit)(f)	*$6,000*	*$6,500*	*$7,000*
Soft Costs (% of Hard Costs)	20%	20%	20%
Financing Costs (% of Const. Cost)	2.2%	3.2%	4.2%
Project Pricing			
Rental Rate (Per Sq. Ft./Month)	$1.89	$1.89	$1.89
Vacancy Rate	5%	5%	5%
Collections Loss	3%	3%	3%
Operating Expense	30%	30%	35%
Profitability Metrics			
Capitalization Rate (CAP)	5.5%	5.5%	5.5%
Yield on Cost (YOC)	6.25%	6.25%	6.25%
Construction Financing			
Annual Interest Rate	4.5%	4.5%	4.5%
Loan Fees (% of Loan Amount)	0.75%	0.75%	0.75%
Loan Term (Months)	12	18	20
Loan to Cost Ratio	65%	65%	79%
Drawdown Factor	65%	65%	65%
Permanent Financing			
Debt Service Coverage (DSC)	1.25	1.25	1.25
Annual Interest Rate	4.75%	4.75%	4.75%
Loan Term (Years)	10	10	10
Amortization (Years)	30	30	30

Major Assumptions

Development Costs	Low Rise	Mid Rise	High Rise
Land Acquisition	**$2,700,400**	**$8,635,000**	**$7,755,800**
Site Preparation	$1,498,464	$1,599,523	$720,000
Parking	$1,055,880	$9,074,600	$7,664,000
Hard Cost	$9,784,400	$48,412,000	$48,006,000
Permit & Fees	$637,690	$2,176,625	$2,078,505
Housing Impact Fee	*$0*	*$0*	*$0*
CitySAC Fee	*$121,690*	*$389,125*	*$349,505*
All Other Fees	*$516,000*	*$1,787,500*	*$1,729,000*
Soft Costs	$1,956,880	$9,682,400	$9,601,200
Construction Costs	**$14,933,314**	**$70,945,148**	**$68,069,705**
Interest Expense	$283,920	$2,023,267	$2,604,943
Loan Fees	$47,320	$224,807	$260,494
Financing Costs	**$331,240**	**$2,248,074**	**$2,865,437**
Total Development Cost	**$17,964,954**	**$81,828,223**	**$78,690,942**
Cost Per Unit Built	$208,895	$297,557	$318,587
Project Revenue			
Gross Scheduled Rents	$1,821,316	$5,786,426	$5,191,432
Less Vacancy/Collections	$145,705	$462,914	$415,315
Adjusted Annual Rents	$1,675,611	$5,323,512	$4,776,118
Less Operating Expenses	$502,683	$1,597,054	$1,647,761
Net Operating Income (NOI)	$1,172,928	$3,726,458	$3,128,357
Yield on Cost (YOC)	**6.53%**	**4.55%**	**3.98%**

Sources: Local Developers and Contractors; City of Bloomington; BAE, 2018.

Table 25: Static Proforma Feasibility Analysis for Low-, Mid-, and High-Rise Rental Housing (Page 2 of 2)

Notes:
(a) All development assumptions are as specified by the City of Bloomington, w ith the exception of pricing, unit size, and the common area adjustment, w hich w ere defined by BAE. Pricing and unit size assumptions are based on a comparison betw een six comparable projects (tw o for each prototype) identified by the City of Bloomington.
(b) The number of parking spaces is based on minimum off-street parking standards currently in use by the City of Bloomington.
(c) The City of Bloomington offers several fleximility measures (transit reduction, TDM reduction, shared parking reduction, on-street parking reduction, and proof of parking) that are commonly used for multifamily residential project. The reductions applied here are based on a review of the flexibility measures associated w ith past approvals conducted by the City of Bloomington. .
(d) The average land cost per new ly built residential unit is a w eighted average based on a review of comparable land sales in the greater Bloomington area in 2015 and 2016, w hich w as provided to BAE by the City of Bloomington.
(e) Includes a new fee for sanitary sew er expansion needed to accommodate increased densities.
(f) Includes all other municipal fees including building permits, inspection fees, certificate of occupancy, plan review fees, utility permits, application fees, impact fees, and other miscellaneous muniticipal charges.
(g) Based on project net operating income (NOI) divided by the target developer yield on cost (YOC). This analysis uses YOC, since most developer interview ed for this research anticipate holding the property follow ing completion. An alternative is to use the exit capitalization rate (CAP) that better reflects the ratio of NOI to market sales value.

Sources: Local Developers and Contractors; City of Bloomington; BAE, 2018.

PUBLIC OUTREACH AND ENGAGEMENT

For the purposes of this research, BAE partnered with Daedalus Advisory Services,[9] which are working under a related contract on behalf of the City of Bloomington, to facilitate to public outreach sessions and one City Council study session regarding the inclusionary housing policy and related nexus and feasibility analyses.

Overview of the Public Outreach Sessions

The two public outreach sessions were held on September 27th, 2018. To encourage diverse participation, one of the outreach session was held in the morning, with another session held in the evening. Both sessions covered the same material. Both sessions included a diverse range of participants, including both for-profit and non-profit housing developers, affordable housing advocates, and members of the general public (both tenants and home owners). The sessions began with presentations from the consultant teams, including BAE and Daedalus. The material covered included a summary of the goals and intended purpose of the inclusionary housing ordinance, a review of pertinent background data regarding affordable housing need in Bloomington, a review of the residential nexus methodology and data, and a discussion regarding preliminary findings, including the maximum justifiable inclusionary housing percentage and in-lieu fee amount, as identified through the nexus study, as well as the preliminary results of the development feasibility analysis. Attendees were provided an opportunity to review the preliminary development assumptions used as part of the static pro-forma development feasibility analysis. Attendees were also afforded ample opportunities to ask questions. For more details on the information presented, please refer to Appendix B.

Comments and Observations

Attendees at both of the public outreach sessions were quite respectful of one another, regardless of differences in viewpoint. A good faith effort was made to identify common ground approaches that appealed to all sides. Attendees generally indicated that they were pleased that the City is pursing a "balanced approach" toward addressing a diversity of housing needs while respecting the realities of contemporary real estate development. Attendees expressed a hopefulness that the consultant team's recommendations can encourage adoption of an inclusionary housing policy that can drive new affordable housing development (i.e., create new units) without curbing market rate residential unit production.

The developers in attendance generally did not express concerns regarding the nexus and feasibility analysis research findings. They did, however, add that it is important that all stakeholders understand the meaning and differences between the different profit metrics reported as part of the research being conducted by BAE and Daedalus. They also identified a

[9] https://www.daedalusservices.com/

brief assortment of incentives and/or concessions that would be useful to them in offsetting the burden imposed by the inclusionary housing ordinance requirements. These included reductions to parking requirements, reduced or waived storage requirements, reductions and/or deferral of City imposed impact and processing fees, and the relaxation of requirements regarding materials and finishes. Housing advocates, by comparison, were most concerned about ensuring that the ordinance provides tools that can help the City meet the needs of the most vulnerable populations and highlighted that the total need for affordable housing in the community is even greater than was presented by the consultants.

Overview of the Council Study Session

The City Council study session was held on October 29th, 2018 at 6:00 pm in the Haeg Conference Room at the Bloomington Civic Plaza. While the session was open to public observers, the focus was on providing the City Council with information and receiving their questions. No public comment period was provided. Similar to the public outreach sessions, the City Council study session began with presentations from the consultant teams, including BAE and Daedalus. The material covered included a summary of the goals and intended purpose of the inclusionary housing ordinance, a review of pertinent background data regarding affordable housing need in Bloomington, a review of the residential nexus methodology and data, and a discussion regarding preliminary findings, including the maximum justifiable inclusionary housing percentage and in-lieu fee amount, as identified through the nexus study, as well as the preliminary results of the development feasibility analysis. The presentation also included a set of preliminary recommendations and outlined an array of policy options that the City may want to consider when developing the policy. For more details on the information presented, please refer to Appendix C.

Comments and Observations

Members of the Bloomington City Council expressed a diversity of opinions regarding the information presented, including strong support from Mayor Winstead and other Council members. Council Member Baloga expressed some doubt regarding whether the nexus study accounts for all economic factors contributing to induced demand, including asking whether changes in labor productivity were factored into the analysis. The Council Member also asked whether the consultant team had spoken with individuals cited in a recently published article regarding the proposed inclusionary housing policy in Minneapolis. Other Council Members expressed concern regarding the loss of existing naturally occurring affordable housing units. Additional concern was expressed regarding the likelihood that adoption of an inclusionary housing policy might impact the willingness of property owners to maintain their properties and discourage the creation of urban “slum” housing. Another Council Member asked about the ability to incorporate “green incentives” for water and energy improvements. Council Members made a wide variety of other comments and asked many insightful questions. The Council subsequently provided direction for Staff to work with the consultant team and to return to the Council with a policy for their review and consideration.

RECOMMENDED POLICY UPDATES

The preceding analyses identified the maximum inclusionary housing percentages that could be justified for use as part of a new inclusionary housing ordinance, based on the induced demand for housing generate as a result of new development. Based on the maximum justifiable inclusionary percentage, the preceding section then calculated the maximum affordable housing impact fee that could be justifiably charged to new development as an alternative to requiring construction of inclusionary housing units.

The feasibility analysis indicates market rate development is currently only marginally feasible, but that in some cases could support payment of a reduced impact, or in-lieu, fee. Recognizing that static pro-forma models represent a simplified, point-in-time, perspective on development feasibility, and that such models cannot be fully representative of all development applications that the City may encounter, BAE recommends the use of caution when considering potential impact fee amounts and inclusionary policy provisions.

The recommendations provided below incorporate the input collected during the developer and community outreach processes and City Council study session. This includes consideration of developer and community perspectives regarding who should bear the burden of funding affordable housing, the relationship between impact fee levels and potential project feasibility, as well as opinions and preferences regarding potential alternative methods for complying with the inclusionary housing requirements. The recommendations also recognize the potential for the City to leverage other local, state, and federal funding sources using housing trust fund dollars, which may allow the City to establish an impact fee amount that is lower than the maximum that would otherwise be justifiable, thereby facilitating project feasibility, while still generating funds sufficient to build much needed affordable housing.

Policy Options and Preliminary Recommendations

When establishing or updating inclusionary housing policies, most jurisdictions generally strive to achieve a balance between community benefit and project feasibility. The goals are often to 1) ensure that the inclusionary housing percentage and impact fee levels adequality mitigate for the impacts of new home construction; 2) that the imposition of such requirements does not overly discourage new development; 3) that the inclusionary policy provides incentives for developing the required inclusionary housing units; and 4) that the fee is high enough to generate sufficient funds to subsidize construction of the units that otherwise would have been built. To these ends, BAE recommends that the City consider the policy options:

Setting the Inclusionary Percentage

Based on the analysis presented earlier in this report, BAE recommends targeting the inclusionary housing ordinance to offset induced housing demand among households earning 60 percent of AMI or less. This is because households with incomes above this level are likely able to afford housing at current market rates and are thus more readily served by the open market. Meanwhile, households with incomes of 60 percent of AMI or less are much less likely to be able to afford market rate rental housing and, thus, require assistance. As demonstrated by the nexus analysis, this new demand for housing is a direct result of new household spending generated as a result of new development; thus, imposition of an inclusionary housing requirement internalizes the impacts associated with induced housing demand that are not otherwise being readily addressed by the market.

BAE also recommends providing developers with the option of building units at any level at or below 60 percent of AMI. For this purpose, BAE developed a rough equivalency table designed to ensure that a developer would provide roughly the same value to the community, regardless of which income level is targeted. The table is based on the estimated financing gap associated with meeting the induced housing demand at incomes of 60 percent of AMI and below of $1.97 million. The equivalency table divides this total cumulative financing gap amount by the relative financing gap associated with providing housing at each income level. For example, to identify the total number of units to be provided if targeted at 60 percent of AMI, divide $1.97 million by the per unit financing gap of $191,991. This generates a total requirement of 10.24 units. Similarly, if the developer preferred to target households with incomes of 30 percent of AMI or below, divide $1.97 by the per unit financing gap of $259,784. This generates a total requirement of 7.57 units. BAE then recommends rounding down to the nearest whole number and allowing developers to account for the remaining fractional unit through a prorated in-lieu fee payment.

Table 10: Inclusionary Housing Requirement Equivalency by Income Level

Cumulative Financing Gap (@ 60% of AMI and Below)	**$1,966,276**	
	Financing Gap Per Inc. Unit	**Total Req. (BMR Units)**
Extremely Low (30% AMI)	$259,784	7.57
(40% AMI)	$250,456	7.85
Very Low (50% AMI)	$221,166	8.89
(60% AMI)	$191,991	10.24

Source: BAE, 2018

Setting the Impact or In-Lieu fee

Due to concerns regarding the impact of fees on project feasibility, and recognizing that affordable housing developers often leverage other funding sources as well, BAE recommends setting the baseline impact fee at around $9.60 per market rate leasable square foot (including market rate units only for calculation purposes). This would generally produce approximately $9,000 per market rate housing unit developed, which is about the maximum that BAE estimates can be supported by the market. It would similarly generate around $100,000 per affordable housing unit required under the inclusionary housing policy, which is roughly comparable to the in-lieu fee charged in other surrounding communities. Charging the fee on a per square foot basis reduces the disincentive to develop smaller housing units, which are often more affordable compared to larger units. BAE also recommends including a provision in the inclusionary housing policy that makes the in-lieu fee option available to developers only in cases where they can demonstrate that it is not feasible to develop the required units while taking advantage of the available incentive options (to be discussed later).

The recommended affordable housing impact fee amount and structure seeks to balance the various policy objectives articulated above. The proposed fee level represents a substantial reduction from the justifiable maximum, recognizing current challenges to development feasibility; the typical funding structure for affordable housing projects; and the desire to reduce the incentive for developers to pay the in-lieu fee instead of building inclusionary units.

Alternative Compliance Options

Recognizing the preference of the community that inclusionary housing units be incorporated within market rate housing projects, the City may wish to consider requiring on-site construction of inclusionary housing units within market rate housing projects, and offering the impact fee and other alternative compliance methods as options only in those cases where the developer can demonstrate a clear need or community benefit. Note, however, that this creates additional uncertainty for developers and may function as a disincentive to develop in Bloomington, compared to surrounding jurisdictions. Also, such a requirement can create an administrative burden to the City by requiring that City staff review and accept financial documents provided by the developer that demonstrate the need for an in-lieu fee option. This would add additional time and expense to the process to allow for review and negotiation.

The City may also want to consider offering any of a number of alternative compliance options that may suit the circumstances and the needs of the City and the Developer. These may include, but are not limited to:

- Development the required housing units off-site;
- Purchase and deed restriction of existing units (e.g., NOAH);
- Payment of the inclusionary housing impact/in-lieu fee;
- Donation of suitable land of equal or greater value;
- Partner with non-profit developer to construct required units;
- Other options as proposed by the developer and deemed appropriate by the City Council to meet the objectives of the inclusionary housing ordinance.

The City may also want to consider incorporating a provision authorizing the reduction of inclusionary housing requirements on a case-by-case basis as necessary to encourage feasibility, provided that the project in question meets other community development objectives. One example of a project that meets community development objectives is one that includes housing designed to be affordable to low- or moderate-income households at market rates by providing smaller units (i.e., affordable by design).

Incentives and Concessions

The City should consider including provisions as part of the inclusionary housing ordinance that authorize the use of incentives and other concessions to offset the costs of providing required inclusionary housing on-site as part of mixed-income developments while simultaneously promoting project feasibility. BAE recommends considering different types of regulatory relief and expedited review, such as parking reductions, setback reductions, open space reductions, fee waivers or deferrals, ministerial approval (i.e., does not require a hearing), etc. Some of these incentives may be made available to any developer interested in building required inclusionary housing units on-site, such as parking reductions or fee deferrals. Other incentives, such as the use of Tax Increment Financing (TIF) may be reserved and scaled for use by developers who commit to providing additional affordable housing or deeper levels of affordability, such as restricting units to 30 percent of AMI, versus 60 percent.

Housing Trust Fund

The City should consider establishing parameters to direct the ways in which housing trust fund dollars may be spent. For example, the City may restrict the use of funds to construction of new deed restricted housing units. However, the City may also want to consider allowing use of trust fund dollars to buy down additional affordability (i.e., pay a developer a reasonable cost to deed restrict housing units to levels that are affordable to households below the level required under the inclusionary housing ordinance). The City may also want to consider allowing the use of trust fund dollars to purchase and/or rehabilitate existing housing units, including naturally occurring affordable housing (NOAH), in exchange for establishment of new deed restrictions requiring a desired level of affordability. A similar provision may also allow the use of funds for the purchase and/or preservation deed restricted affordable housing that may otherwise be at risk of conversion to market rate.

APPENDIX A: ECONOMIC IMPACTS ANALYSIS FOR PLANNING (IMPLAN) OVERVIEW

Economists use regional and national input-output models as a tool to understand the complex interactions among the various parts of an economy. The economic model used in this analysis, IMPLAN ("IMpact analysis for PLANning"), is a computer software package that automates the process of developing input-output models for regions within the United States. The IMPLAN model is well respected as the industry standard for projecting economic impacts resulting from current or future economic activities often called "events." In this study, the increase in household expenditures of the residents of newly-constructed housing projects in Windsor make up the "events" that the analysis uses as the IMPLAN model's inputs.

At the heart of the IMPLAN model is a county-level trade flow called the Social Accounting Matrix (SAM) constructed from the production functions of 536 industries, using data from a variety of sources including the Bureau of Economic Analysis, Bureau of Labor Statistics, and US Census. The SAM uses each county's observed economic relationships between government, industry, and household sectors, allowing IMPLAN to model payments between industries, between households and industries, between government and industries, and between government and households. Thus, for a specified region, the input-output table estimates the dollar flows between the different sectors within the economy. IMPLAN then applies county-level price and wage data, as well as considering the availability of goods within the analysis region, to estimate the impacts specific to this area, which for this analysis defined as Sonoma County.

Once the selected economic events have been entered into the model, IMPLAN reports the following types of impacts:

- **Direct Impacts**. Direct impacts refer to the set of producer or consumer expenditures applied to the predictive model for impact analysis. It is the amount of spending available to flow through the local economy. IMPLAN then displays how the local economy will then respond to these initial changes. The direct impacts may equal up to the amount of spending input into the model, depending on a variety of factors.
- **Indirect Impacts.** The indirect impacts refer to the impact of local industries buying goods and services from other local industries. The cycle of spending works its way backward through the supply chain until all money leaks from the local economy, either through imports or by payments to income and taxes. For capital projects this would include payments for construction inputs such as wood, steel, office supplies, and any other non-labor payments that a construction firm would purchase in the building process.
- **Induced Impacts.** The induced impacts refer to an economy's response to an initial

change (direct impact) that occurs through re-spending of income according to household spending patterns. When households earn income, they spend part of that income on goods and services locally, such as food and healthcare. IMPLAN models households' disposable income spending patterns and distributes them through the local economy.

For the analysis of the potential impacts of new housing in Bloomington using the IMPLAN model, BAE determined the household income required to rent or purchase market rate housing. For multifamily rental housing, condominiums, and single-family houses, BAE assumed a 100-unit project as a benchmark; the income associated with a single residence would not be enough to generate job impacts in the IMPLAN model.

The 100-unit project incomes were then entered into IMPLAN as a change in household income; since the "event" consists solely of this income change, all the impacts per IMPLAN are induced incomes linked to the expenditures of the new households.

The impacts of concern for this analysis are the jobs generated by that income. The detailed output provides jobs by each of the 536 IMPLAN sectors. For this analysis, BAE has collapsed those sectors into major industry sectors by NAICS code. The distribution by income generated by the PUMS analysis is then applied to this total number of jobs by industry.

APPENDIX B: STAKEHOLDER ENGAGEMENT WORKSHOP PRESENTATION

Bloomington City Hall
Council Chambers
September 27, 2018

****AGENDA****

8 am - Team meeting at Bloomington City Hall Auditorium

9:00 - 9:15 AM

- Eric Johnson, MPA, PhD, Introduction and Overview of Program - Nexus Study and Modeling Effort in Support of an Inclusionary Housing Ordinance for Bloomington
- Eric Johnson – Purpose of today's meeting

9:15 – 10:00 AM

- BAE Presentation on the Bloomington Nexus Study
- Daedalus Advisory Services' Presentation on the IHO and Competitiveness
- Questions and answers on the presentation

10:00 – 10:55 AM

-Stakeholder input - open discussion around these topics

  -
  - Opportunities and impediments to developing affordable housing
  - Incentives and costs of developing affordable housing
  - Inclusionary housing policy options
  - Affordable housing needs in Bloomington not already covered
  - Other issues not otherwise addressed

10:55 to 11:00 AM

- Next Steps and Meeting Wrap-Up

11:00 - 1:00 PM Lunch

1:00-1:15 PM

- Eric Johnson, MPA, PhD, Introduction and Overview of Program - Nexus Study and Modeling Effort in Support of an Inclusionary Housing Ordinance for Bloomington
- Eric Johnson – Purpose of today's meeting

1:15 – 2:00 PM

- BAE Presentation on the Bloomington Nexus Study
- Daedalus Advisory Services' Presentation on the IHO and Competitiveness
- Questions and answers on the presentation

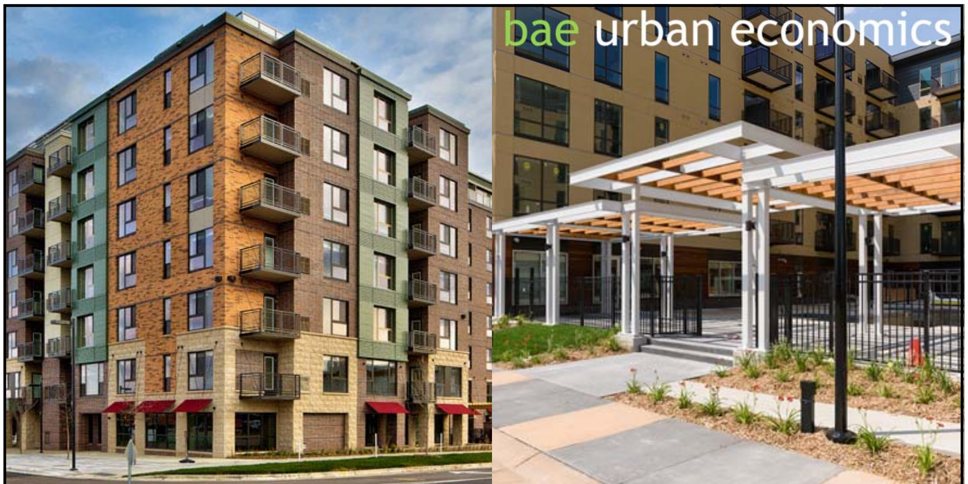
2:00 – 2:55 PM

- Stakeholder input - open discussion around these topics

  - Opportunities and impediments to developing affordable housing
  - Incentives and costs of developing affordable housing
  - Inclusionary housing policy options
  - Affordable housing needs in Bloomington not already covered
  - Other issues not otherwise addressed

2:55 to 3:00 PM

- Next Steps and Meeting Wrap-Up



AFFORDABLE HOUSING NEXUS STUDY

City of Bloomington

Community Outreach Session: September 27, 2018

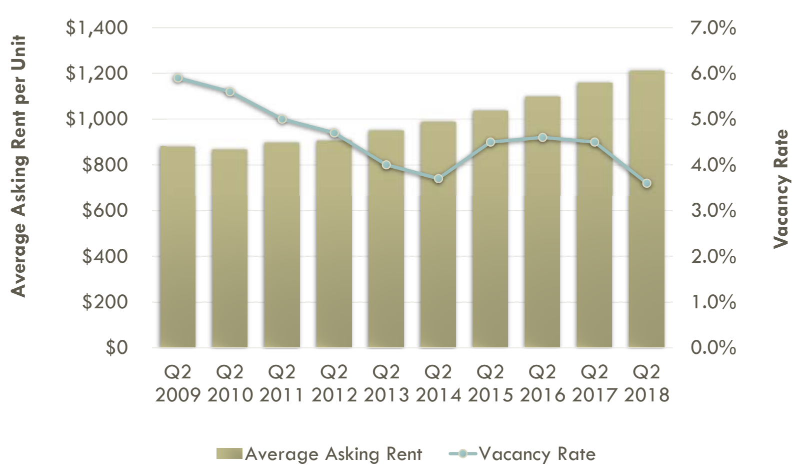
INCLUSIONARY HOUSING POLICY

- Bloomington is developing an inclusionary housing policy
  - Other nearby cities (e.g., Edina) have similar policies
  - Sometimes, more of a political than analytical process
- Bloomington engaged BAE Urban Economics to conduct an affordable housing nexus and fee study
  - Provide a quantifiable justification for setting the inclusionary percentage and in-lieu fee amount

HOUSING NEXUS & FEE STUDY

- Industry standard methodology for establishing nexus
  - Step 1 – Identify income necessary to rent new units
  - Step 2 – Estimate new employment supported by new units
  - Step 3 – Estimate proportion at each income level
  - Step 4 – Calculate Financing Gap for Inclusionary Units
  - Step 5 – Calculate Maximum Justifiable Fee

RENTS & VACANCY RATES



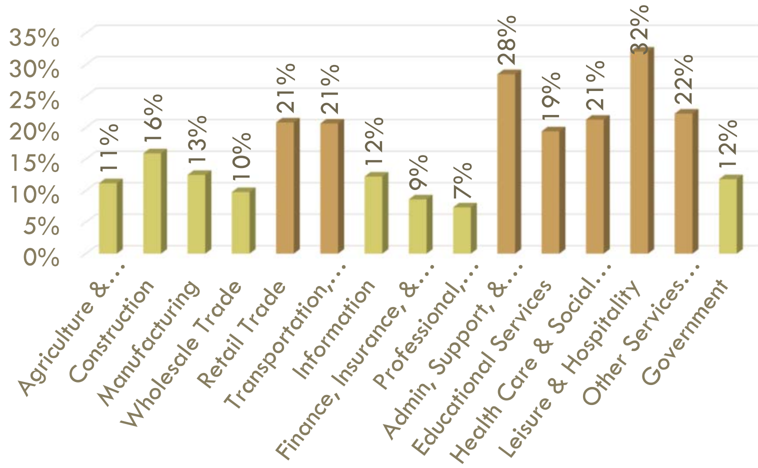
AFFORDABLE RENTAL RATES AND AVERAGE MARKET RATE RENTS

60% AMI				
1-Person	$916	$906		
2-Person		$1,047	$1,027	
3-Person			$1,168	$1,160
4-Person				$1,301
Low (80% AMI)				
1-Person	$1,246	$1,236		
2-Person		$1,424	$1,404	
3-Person			$1,592	$1,584
4-Person				$1,772
Average Market Rent	$935	$1,100	$1,351	$1,529

HOUSEHOLD INCOME CATEGORIES

	Income Limits/Household Size			
Income Category	1 Person	2 Person	3 Person	4 Person
Median Family Income: $94,300				
Extremely Low (30% AMI)	$19,830	$22,650	$25,470	$28,290
Very Low (50% AMI)	$33,050	$37,750	$42,450	$47,150
60% AMI	$39,660	$45,300	$50,940	$56,580
Low (80% AMI)	$52,880	$60,400	$67,920	$75,440
Median (100% AMI)	$66,100	$75,500	$84,900	$94,300
Moderate (120% AMI)	$79,320	$90,600	$101,880	$113,160

WORKFORCE HOUSEHOLDS EARNING 60% AMI OR LESS



NEW APARTMENT RENTAL RATES

Unit Type	Total Units	Per Unit Sq. Ft.	Per Unit Rent	Rent Per Sq. Ft.
Studio	85	575	$1,400	$2.43
1-Bedroom	806	830	$1,629	$1.96
2-Bedroom	457	1,176	$2,086	$1.77
3-Bedroom	20	1,391	$2,233	$1.60
All Units	**1,368**	**938**	**$1,776**	**$1.89**

Note:
(a) Based on a survey of the following projects:

Luxembourg
IndiGO Apartments
The Covington
Genesee Apartments & Townhomes
One Southdale Place

INCOME NEEDED TO AFFORD MARKET RATE APARTMENTS

Average Monthly Rent (a)	$1,800
Utility Cost (b)	$96
Monthly Housing Costs for New Unit	$1,896
Annual Housing Costs	$22,752
Household Income Required (c)	$75,840

MARKET RATE AND AFFORDABLE NEXUS

- Use the IMPLAN 3.0 software package to estimate new jobs supported by new household spending
- Use the Public Use Microdata Sample (PUMS) to identify:
  - Average number of workers per household by industry of employment
  - Average household income by industry of employment
- Identify the number of workforce households supported by new resident spending by income category

WORKFORCE HOUSING DEMAND INDUCED FROM MARKET RATE DEVELOPMENT

Industry	Total Jobs (b)	Estimated Jobs by Percent of AMI (a) Extremely Low (30% AMI)	Very Low (50% AMI)	(60% AMI)	Low (80% AMI)	Moderate (120% AMI)	Above Moderate (>120% AMI)
Total Jobs	**57.26**	**3.44**	**5.25**	**2.97**	**6.32**	**12.04**	**27.24**
Workers per Households (c)	1.65	1.23	1.38	1.43	1.45	1.69	1.88
Number of Households	**34.66**	**2.80**	**3.79**	**2.08**	**4.34**	**7.12**	**14.53**
Percent of Base Project (d)		**2.8%**	**3.8%**	**2.1%**	**4.3%**	**7.1%**	**14.5%**
Cumulative		*2.8%*	*6.6%*	*8.7%*	*13.0%*	*27.3%*	*34.7%*

COST TO DEVELOP AN AFFORDABLE HOUSING UNIT

- Reviewed information on tax credit projects from Minnesota Housing
  - 2017 Cost Containment Report
  - 2019 Thresholds for Cost Containment

Region	Activity Type	Building Type		Applicable Cost Threshold
Minneapolis Metro	New Construction	Singles		$223,952
Minneapolis Metro	New Construction	Families/Mixed		$259,784
Minneapolis Metro	New Construction	Large Families		$273,457

Sources: Minnesota Housing; BAE, 2018.

MAXIMUM JUSTIFIABLE FEES

- Calculate the financing gap for below market rate units
  - Rental units: Based on cost to build the unit, minus the value of the permanent loan that can be supported by projected rents.
- The maximum justifiable fee equals the financing gap, times induced new housing demand

MAXIMUM JUSTIFIABLE FEES

	Income Level				
	Extremely Low (30% AMI)	Very Low (50% AMI)	(60% AMI)	Low (80% AMI)	Moderate (120% AMI)
Household Income Limit	$22,650	$37,750	$45,300	$60,400	$90,600
Maximum Affordable Monthly Rent Per Unit	$480	$858	$1,047	$1,424	$2,179
Monthly Operating Expenses	$566	$566	$566	$566	$566
Vacancy	7%	7%	7%	7%	7%
Net Operating Income Per Unit	($119)	$232	$407	$758	$1,460
Net Operating Subsidy from Other Sources	$119	$0	$0	$0	$0
Monthly Supportable Debt Service Per Unit	$0	$201	$354	$659	$1,270
Loan Amount	$0	$38,618	$67,793	$126,238	$243,513
Affordable Unit Development Cost	$259,784	$259,784	$259,784	$259,784	$259,784
Financing Gap Per Affordable Unit	**$259,784**	**$221,166**	**$191,991**	**$133,546**	**$16,271**

MAXIMUM JUSTIFIABLE FEES

New Employee Households	
Extremely Low (30% AMI)	2.80
Very Low (50% AMI)	3.79
(60% AMI)	2.08
Low (80% AMI)	4.34
Moderate (120 AMI)	7.12
Total, Affordable Housing Need	**20.14**

Affordability Gap (Per BMR Unit)	
Extremely Low (30% AMI)	$259,784
Very Low (50% AMI)	$221,166
(60% AMI)	$191,991
Low (80% AMI)	$133,546
Moderate (120 AMI)	$16,271

Affordability/Financing Gap	
Extremely Low (30% AMI)	$728,374
Very Low (50% AMI)	$838,638
(60% AMI)	$399,265
Low (80% AMI)	$580,100
Moderate (120 AMI)	$115,837
Total, Affordability/Financing Gap	**$2,662,214**

Max. Fee (Per Market Rate Unit)	
Extremely Low (30% AMI)	$7,284
Very Low (50% AMI)	$8,386
(60% AMI)	$3,993
Low (80% AMI)	$5,801
Moderate (120 AMI)	$1,158

IMPACTS ON DEVELOPMENT FEASIBILITY

- Used pro-forma financial models to assess the impact of the maximum fee on development feasibility
- Considered three rental housing prototypes
  - "Low-Rise" – Wood frame construction at 25 du/a
  - "Mid-Rise" – Wood frame w/ concrete podium at 60 du/a
  - "High-Rise" – Concrete construction at 90 du/a
- See handout for details on the pro-forma models

PRELIMINARY IN-LIEU FEE FINDINGS

- Maximum feasible fee appears to be approximately $10,000 per market rate unit
- This represents approximately 1/2 of the maximum justifiable fee
- The equivalent in-kind contribution would be approximately 9 additional units affordable to households at 60% of AMI for every 100 new market rate rental units

QUESTION AND ANSWER

INPUT ON DEVELOPMENT FEASIBILITY ASSUMPTIONS

Land costs

Hard construction costs – per square foot

Soft costs

Financing costs

Market rate rents

Apartment operating costs

Profit requirements (Yield on Cost)

Other

WHAT KINDS OF ASSISTANCE WOULD HELP FEASIBILITY?

- Parking reductions?
- Density bonuses?
- Other modifications to development standards?
- Funding to assist in achieving deeper affordability/increased inclusionary percentages?
- Other types of assistance or incentives?

INPUT ON POLICY OPTIONS

- To what projects should inclusionary policy apply?
  - All new housing development
  - Rental housing projects only
  - Projects over a certain size (e.g., 5+ units)
  - New development only (excludes remodels)
  - **Other options of interest?**

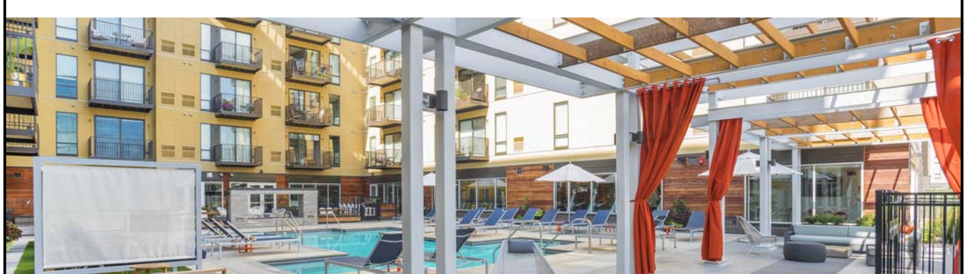
INPUT ON POLICY OPTIONS

- How to comply with the inclusionary requirements?
  - Build required housing units on-site
  - Build required housing units off-site
  - Pay a fee in-lieu of building units
  - Dedicate land of equal value
  - Deed restrict existing housing units
  - **Other options of interest?**

INPUT ON POLICY OPTIONS

- Other important considerations:
  - Impact of fees on development feasibility?
  - Adopt the maximum fee or something less? Why?
  - Should changes be phased in, or apply to current pipeline?
  - Are compliance options disincentives to build units?
  - Are developers prepared to build/manage inclusionary units?
  - Are there other options or partnerships that could add value?

WRAP-UP AND NEXT STEPS



ADDITIONAL COMMENTS/QUESTIONS?

BAE Urban Economics
803 2nd Street, Suite A
Davis, CA
(530) 750-2195

Matt Kowta, Principal
mkowta@bae1.com

Aaron Nousaine, Vice President
aaronnousaine@bae1.com

APPENDIX C: CITY COUNCIL WORKSHOP PRESENTATION

CITY OF BLOOMINGTON MINNESOTA

Request for Council Action

Originator	Item
Community Development	**Affordable Ordinance Development**
Agenda Section	Date
Study Item	Monday, October 29, 2018

Requested Action

Staff is seeking feedback and direction from the City Council on the research findings and preliminary policy recommendations for the creation of an affordable housing ordinance. Daedalus Advisory and BAE Urban Economics will present the findings of the affordable housing ordinance research work taken place over the past several months.

Item created by: Eric Anthony Johnson (CD Director)

Presenter: Eric Anthony Johnson (CD Director) and Daedalus Advisory and BAE Urban Economics

Description

With rising housing costs and extremely low vacancy rates, concerns about the lack of affordable housing across Bloomington and the Twin Cities metro region have been growing. The challenges include but not limited to:

- Tight demand and supply, and rising rents have intensified the affordable housing challenge in Bloomington
- Affordable units comprise 12% of the total rental unit stock, with 0% vacancy.
- Many buildings have closed wait lists
- Market rate units show a tight demand-supply situation - <2% vacancy
- Average monthly rent for a two bedroom apartment is $1,896 including utilities
- Annual housing costs for a new unit is $22,752 with a required annual income of $76,000 needed to afford.
- The greatest housing need is for individuals and families making between 30-60% of area median income.

The City Council has prioritized the creation of an affordable housing ordinance as part of a series of strategies to support addressing the issue. At the study session, City Staff in concert with Daedalus Advisory and BAE Urban Economics will present key research findings and policy recommendations related to creating a comprehensive affordable housing ordinance rooted in economic analysis, stakeholder engagement, nexus study and best practices.

Attachments:
10/29/2018 Powerpoint Presentation

DAEDALUS ADVISORY SERVICES

bae urban economics

Analysis supporting a proposed Inclusionary Housing Ordinance for Bloomington

October 2018

1

DAEDALUS ADVISORY SERVICES

bae urban economics

Agenda

- Introduction & background
- Policy options
- Research findings
- Preliminary recommendations
- Next steps
- Comments & questions

2

DAEDALUS ADVISORY SERVICES

bae urban economics

What is an Inclusionary Housing Ordinance (IHO)?

Inclusionary housing refers to a range of local policies that tap the economic gains from rising real estate values to create affordable housing—tying the creation of homes for low-or moderate-income households to the construction of market-rate residential or commercial development.

(Source: Adapted from Inclusionary Housing, Creating and Maintaining Equitable Communities, 2015 Lincoln institute of Land Policy, Cambridge, Mass. 2015.)

- The primary objective of an IHO is to increase the supply of and preserve affordable housing units, and promote localized economic and community integration
- Difficult to estimate the affordable units created using IHO's but one estimate ranges between 100,000 to 150,000 nationwide since the late 1980s across 27 states and Washington DC

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Bloomington's affordable housing ordinance is being developed around a structured approach and including provisions that cover a range of issues

- Approach: Nexus study, development testing, best practices, lesson learned and stakeholder engagement as the foundation of the work
- AMI focus: 60% of AMI and below (i.e., identified need)
- Comprehensive approach with flexibility as a foundation
- Percent affordable units on all new developments and substantial rehabilitation
- Creation of a payment in-lieu of on-site units
- Creation of an affordable housing trust fund
- Development fee deferral initiative
- Introduction of regulatory incentives tools (geared toward developments that focus on addressing the identified need) Bundling of resources to support reaching the greatest need (60-30% AMI as a collective).
- Introduction of substantial rehabilitation
- ADU's
- Affordable housing plan
- Transition period
- Right of first refusal

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  - Key definitions
  - Nexus study
  - Lessons learned from IHOs
  - Stakeholder responses
  - Incentives analysis
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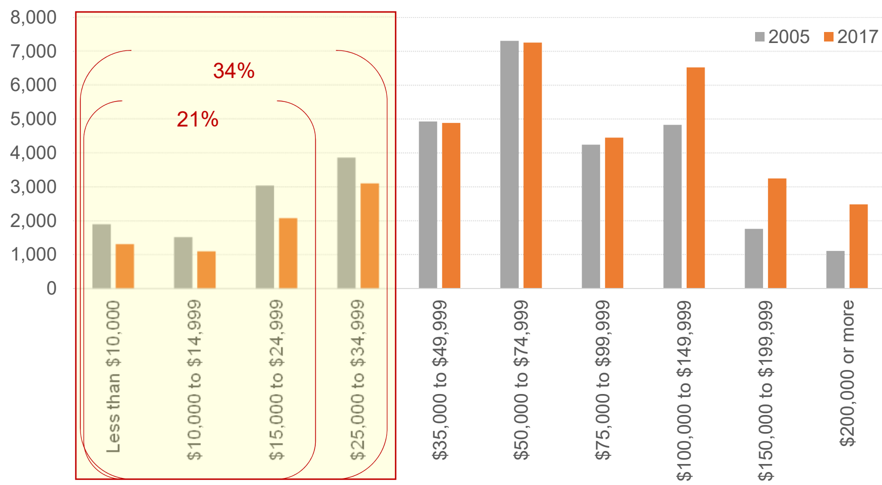
The focus for most affordable housing efforts is the lower end of the income scale



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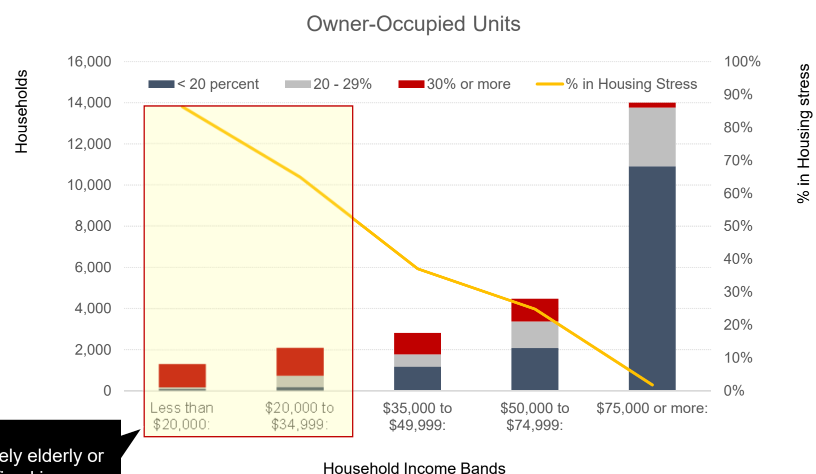
Housing stress among home owners shows little over $75k in income / year, but increasing amounts as you move down the income scale



Likely elderly or on fixed incomes

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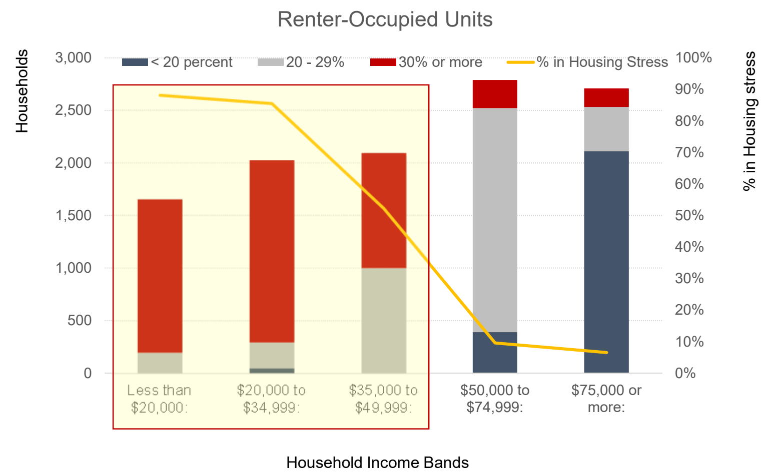
Housing stress in the lower income renters, in particular, is acute, with more than 90% being in definitional housing stress



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Households at or below 60% of area median income are likely to struggle to locate and secure housing without overpaying (>30% of income)

60% AMI				
1-Person	$916	$906		
2-Person		$1,047	$1,027	
3-Person			$1,168	$1,160
4-Person				$1,301
Low (80% AMI)				
1-Person	$1,246	$1,236		
2-Person		$1,424	$1,404	
3-Person			$1,592	$1,584
4-Person				$1,772
Average Market Rent	$935	$1,100	$1,351	$1,529

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To better understand the IHO and nexus process, it may be helpful to review some key definitions

- Affordable Housing – Where the cost to own or rent the housing unit does not exceed 30 percent of income
- Induced Demand – New demand for housing created as a result of new household spending
- Housing Nexus – A clearly defined relationship between new housing development and resulting induced demand for housing
- Inclusionary Housing – The percent of a new housing project required to be affordable at a given income level
- Financing Gap – The difference between the cost to create a housing unit and the revenue it generates
- In-Lieu Fee – A payment made by a developer in exchange for being released from the requirement to build inclusionary housing
- Area Median Income (AMI) – The median income of households in Hennepin County

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Nexus studies typically follow an industry standard methodology that defines the relationship between development and housing demand.

- Industry standard methodology for establishing nexus and informing inclusionary housing policies
  - Step 1 – Identify income necessary to rent new units
  - Step 2 – Estimate new employment supported by new units
  - Step 3 – Estimate proportion at each income level
  - Step 4 – Calculate Financing Gap for Inclusionary Units
  - Step 5 – Calculate Maximum Justifiable Fee

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The first step is to identify pricing for newly built project. BAE reviewed a selection of new projects, which all had a similar unit mix and pricing.

Unit Type	Total Units	Per Unit Sq. Ft.	Per Unit Rent	Rent Per Sq. Ft.
Studio	85	575	$1,400	$2.43
1-Bedroom	806	830	$1,629	$1.96
2-Bedroom	457	1,176	$2,086	$1.77
3-Bedroom	20	1,391	$2,233	$1.60
All Units	**1,368**	**938**	**$1,776**	**$1.89**

Note:
(a) Based on a survey of the following projects:

Luxembourg
IndiGO Apartments
The Covington
Genesee Apartments & Townhomes
One Southdale Place

Sources: Apartment Managers, 2018; BAE, 2018.

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Step two in the nexus process is to identify the minimum income required to afford market rate rents in newly built multifamily housing project.

Average Monthly Rent	$1,800
Utility Cost	$96
Monthly Housing Costs for New Unit	$1,896
Annual Housing Costs	$22,752
Household Income Required	$75,840

Sources: Apartment Managers, 2018; BAE, 2018.

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The next step is to use an input-output economic model to estimate the number of jobs by industry that are supported by new household spending.

- Use the IMPLAN 3.0 software package to estimate new jobs supported by new household spending
- Use the Public Use Microdata Sample (PUMS) to identify:
  - Average number of workers per household by industry of employment
  - Average household income by industry of employment
- Identify the number of workforce households supported by new resident spending by income category

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Then, BAE uses Census data to convert jobs by industry to worker households by income level, accounting for multiple wage earners

		Estimated Jobs by Percent of AMI (a)					
Industry	Total Jobs (b)	Extremely Low *(30% AMI)*	Very Low *(50% AMI)*	*(60% AMI)*	Low *(80% AMI)*	Moderate *(120% AMI)*	Above Moderate *(>120% AMI)*
Total Jobs	**57.26**	**3.44**	**5.25**	**2.97**	**6.32**	**12.04**	**27.24**
Workers per Households (c)	1.65	1.23	1.38	1.43	1.45	1.69	1.88
Number of Households	**34.66**	**2.80**	**3.79**	**2.08**	**4.34**	**7.12**	**14.53**
Percent of Base Project (d)		**2.8%**	**3.8%**	**2.1%**	**4.3%**	**7.1%**	**14.5%**
Cumulative		*2.8%*	*6.6%*	*8.7%*	*13.0%*	*27.3%*	*34.7%*

Sources: U.S. Census Bureau, Public Use Microdata Sample, 2018; BAE, 2018.

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The first step in identifying a justifiable fee is estimating the average cost to build an affordable housing unit.

- Reviewed information on tax credit projects from Minnesota Housing
  - 2017 Cost Containment Report
  - 2019 Thresholds for Cost Containment

Region	Activity Type	Building Type		Applicable Cost Threshold
Minneapolis Metro	New Construction	Singles		$223,952
Minneapolis Metro	New Construction	Families/Mixed		$259,784
Minneapolis Metro	New Construction	Large Families		$273,457

Sources: Minnesota Housing; BAE, 2018.

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The next step is to calculate the difference between the permanent loan that BMR rents can support and the cost of building housing.

- Calculate the financing gap for below market rate units
  - Rental units: Based on cost to build the unit, minus the value of the permanent loan that can be supported by projected rents.
- The maximum justifiable fee equals the financing gap, times induced new housing demand

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The maximum justifiable fee is calculated by multiplying the induced demand by the financing gap, then dividing by the number of units.

Income Level	New Employee Households	Financing Gap Per Afford. Unit	Cumulative Gap (Per 100 mrkt. Units)	Maximum Justifiable Fee Per Mrkt. Unit	Maximum Justifiable Fee Per Mrkt. Sq. Ft.
Extremely Low (30% AMI)	2.80	$259,784	$728,374	$7,284	$7.77
Very Low (50% AMI)	3.79	$221,166	$838,638	$8,386	$8.94
(60% AMI)	2.08	$191,991	$399,265	$3,993	$4.26
Induced Housing Need	**8.68**		**$1,966,276**	**$19,663**	**$20.97**

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The next step is to test whether new development can support an impact/in-lieu fee, and if so, how much?

- Used pro-forma financial models to assess the impact of the maximum fee on development feasibility
- Considered three rental housing prototypes
  - “Low-Rise” – Wood frame construction at 25 du/a
  - “Mid-Rise” – Wood frame w/ concrete podium at 60 du/a
  - “High-Rise” – Concrete construction at 90 du/a
- Pro-forma models based on developer input and current development cost and revenue data
- Indicates an average project could support up to a $9,000 in-lieu fee
- Also considered how incentives can offset the cost of providing the required inclusionary units (presented later by Daedalus)

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We have interviewed four peer jurisdictions to understand Lessons Learned about their implemented IHOs

Montgomery County, MD
- pioneer in implementing IHO,
- 12,000+ units delivered since inception,
- In-lieu fees as last resort
- refined mix of incentives, but flexible,
- highly integrated approach

Evanston, IL
- since 2016, bring in isolated groups,
- 10%, 20% (if public funds), 5-10 units
- $75-100K in-lieu (to be moved up)
- targeted areas, e.g., TOD
- Alternative compliance possible

Denver, CO
- new program
- unit production oriented
- wide range of incentives, but flexible
- strong developer input/outreach
- clear processes

Carlsbad, CA
- since 1990's with several iterations
- 15%, >7 units
- 2,000+ units delivered since 1993
- Alternate compliance possible

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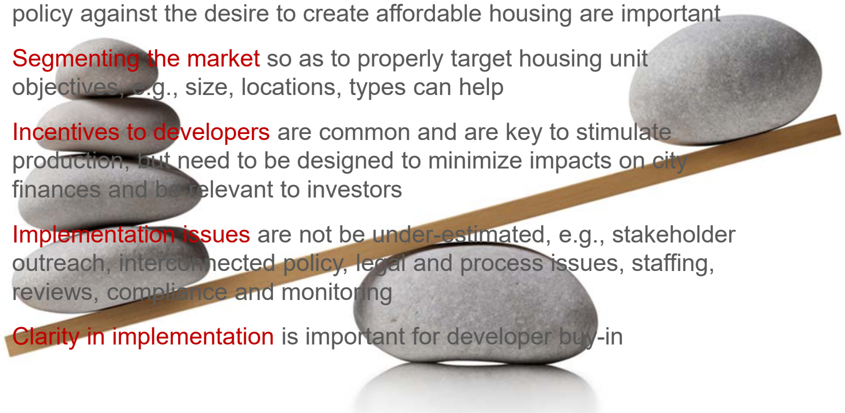
Balancing market trends and IHO compliance is emerging as a key theme to successfully designed and implemented IHOs

- Variation in approaches by cities and jurisdictions with economic integration and unit production seen often as main driver
- Local market conditions and balancing the economic impacts of a policy against the desire to create affordable housing are important
- Segmenting the market so as to properly target housing unit objectives, e.g., size, locations, types can help
- Incentives to developers are common and are key to stimulate production, but need to be designed to minimize impacts on city finances and be relevant to investors
- Implementation issues are not be under-estimated, e.g., stakeholder outreach, interconnected policy, legal and process issues, staffing, reviews, compliance and monitoring
- Clarity in implementation is important for developer buy-in



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A wide range of incentives can be used singly or jointly for policy successes

DIRECT		INDIRECT		OTHER	
Development Fee Waivers / Reductions	Cash grants	Density bonus	In-Lieu payment	Off site location	Housing type choice
		Expedited review	Exemptions	Mixed-use options (zoning)	Other waivers
		Geographic focus	Zoning variances	Parking options	Interior variances

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Stakeholder workshop feedback on initial approach was largely positive

- A broad range of interests: for profit and non-profit developers, housing advocates, tenants and home owners
- Respectful, common ground approaches from all sides
- Generally happy that we chose a balanced approach towards housing needs and the realities of developing property
- Were hopeful that our recommendations could create new affordable units without curbing overall unit production

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Stakeholder workshop feedback on initial approach was largely positive

- Developers generally did not express concerns nexus findings or feasibility findings
- Developers noted that it is important that all stakeholders understand the meaning and differences between various profit metrics
- Developers indicated the following types of incentives/concessions would be useful in conjunction with inclusionary requirements:
  - Reduced parking requirements
  - Reduced/waived storage requirements
  - Fee deferrals/reductions
  - Relaxed requirements for materials/finishes
- Housing advocates were concerned about reaching the most vulnerable populations and thought the need was even greater than we presented

We evaluated incentive impacts using an actual project. Results give an idea of IHO impacts without incentives

Financial return estimates for example 174 unit building			
	20% @ 60% AMI	All Market	20% @ 30% AMI
Unleveraged (no debt)			
IRR	4.8%	5.9%	4.3%
NPV (10%)	($24M)	($21M)	($26M)
Leveraged (incl. debt)			
IRR	5.9%	8.3%	4.6%
NPV (10%)	($11M)	($8M)	($13M)

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Incentives offset the IHO's cost and revenue impacts on development projects. Not all incentives are valued similarly.

Financial return estimates with incentives for 20% at 30 AMI case					
	Parking reduction	Density bonus	TIF	Fee deferral	All incentives
	No city money	*No city money + 42 units*	*City money*	*Delayed fees for permit, parks and dev*	
Unleveraged (no debt)					
IRR	4.7%	5.7%	6.3%	4.3%	7.7%
NPV (10%)	($24M)	($21M)	($18M)	($26M)	($12M)
Leveraged (incl. debt)					
IRR	5.6%	8.7%	9.5%	4.3%	13.8%
NPV (10%)	($11M)	($7.6M)	($7.9)	($14M)	($1.7M)

Market limitations on parking reductions

Market limitations on additional units

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Preliminary Recommendations

- Based on this analysis, BAE/Daedalus recommend:
  - Structuring the IHO to incentivize housing construction
  - Set inclusionary percentage at ~9% to account for induced demand created at 60% of AMI and below
  - Set the in-lieu fee at ~$9.60 per leasable square foot of market rate residential area
    - Does not penalize developers for smaller units
    - Based on a supportable fee of ~$9,000 per market rate unit
    - Would generate ~$100,000 per inclusionary unit needed
  - Allow developers to request payment of in-lieu fee, if justified
    - Create a set of incentives to encourage construction and to offset the cost of providing inclusionary units

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In-lieu fee of roughly ~$9.60 square foot on market rate units can raise ~$100,000 per inclusionary housing unit needed

In-lieu Fee (Per Mrkt. Sq. Ft.)	# of Mrkt. Rate Units	Ave. Unit Size	Total In-Lieu Fee Payment	Incl. Units Required	Trust Fund Contribution Per Incl. Unit
~$9.60	100	938	~$900,000	9	~$100,000

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The policy options for Bloomington involve a number of considerations

- Apply the IHO to
  - All new rental housing development
  - Projects over 20 units
  - New development and major renovations (exclude minor remodels)
  - All areas of the city
  - All at once after public notice, but allowing existing permitted and in process projects to be grandfathered in

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Compliance issues also require evaluating a range of potential options

- Allow developers flexibility in meeting the requirements
  - Give preference to building required housing units on-site, but allow off-site options under specific conditions
  - Allow the payment of a fee in-lieu of building units
  - Allow Dedication of land of equal or greater value
  - Deed restrict existing housing units

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Housing, population and economic trends shift constantly. Policy should reflect consideration of those factors as well

- Other important considerations that require additional policy discussions
  - Faster permit processing and development fee deferral options?
  - Adopt the maximum fee or something less?
  - Are compliance options disincentives to build units?
  - Are developers prepared to build/manage inclusionary units?
  - Should the City use other resources to encourage (i.e., buy) deeper affordability, such as provide TIF subsidy?
  - Is the policy prepared to withstand economic change?
  - How flexible should it be to accommodate unique circumstances?
  - Are there other options or partnerships that could add value?

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Next Steps

- Finalize Nexus study results
- Finalize investor impact model
- Get input from other affordable market players, as needed
- Finalize draft set of incentives
- Get input on regulatory options and incentives
- Advance IHO draft

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Comments and questions?

Homebuilders concerned about proposed Minneapolis "inclusionary zoning" rule

Resistance is building to a proposed Minneapolis requirement that developers reserve 10% to 20% of new rental units for affordable housing.

OCTOBER 28, 2018 — 3:20PM

NEAL ST. ANTHONY @STANTHONYSTRIB

Resistance is building among housing developers and business community allies to a proposed Minneapolis requirement that developers reserve 10 to 20 percent of new rental units for affordable housing.

Kelly Doran, a developer and Minneapolis resident who has been one of the city's most prolific builders of market-rate apartment housing since 2009, warned Mayor Jacob Frey and the City Council in a letter this month that builders and investors would pull out in response to a blanket policy.

"I know that is my company's position," Doran wrote.

Doran is part of a coalition formed this year of for-profit and nonprofit developers focused on affordable as well as overall housing supply in housing-pressed Minneapolis.

Building Minneapolis Together, led by Downtown Council President Steve Cramer, the former CEO of affordable housing developer-manager Project for Pride in Living, has joined with Doran and other developers to argue the unintended consequence of an "inclusionary zoning" ordinance of 10 percent or more affordable units could kill a lot of planned housing.

"I keep telling council members that you can require whatever you want, but it's a matter of math," Cramer said.

In a position paper, the coalition embraces the "vast majority" of credible housing experts who contend the expansion of housing supply should be the primary goal, and policies that would "constrain new supply directly results in higher rents across the entire market … thus exacerbating housing affordability."

Council President Lisa Bender, guided by populist sentiment and a city consultant that recommended inclusionary zoning, said it's the best way to create thousands more affordable units without additional cost to the city.

Frey, who has proposed a record $40 million in subsidies toward low-income housing from a variety of sources next year, is holding his fire on the proposed ordinance.

"The ordinance should complement other efforts so that it doesn't stymie our work to address [the overall] housing shortage amid low vacancy rates," Frey said in an interview. "I'm committed to working with council colleagues to make sure this is done thoughtfully."

In an interview, Doran said requiring 10 percent of units go to low-income renters in the Expo, a $100 million 368-unit apartment complex he is building with co-developer Gary Holmes of CSM Corp. on a former parking lot near St. Anthony Main would drive up the cost by $8 or $9 million and require raising base rents on unsubsidized units by $100 or more, starting with $1,000-a-month units.

"There's unanimity that there's an affordable housing problem," Doran said last week. "There are more thoughtful ways to a solution."

Basically, the business lobby says the blanket requirement will wound or kill the housing business in town, particularly in what's likely the late stages of a long economic recovery that is being threatened by higher interest rates. That's compounded by rising construction and labor costs.

The building coalition said to meet demand the city must add "7,500 new housing units today plus 5,000 new housing units every year to reach equilibrium, representing a capital need of $3.1 billion [this year] and $1.25 billion every year thereafter."

That would get the vacancy rate to about 5 percent.

Cramer and others argue that institutional investors, insurance companies, pension funds and other investors will balk over a restrictive ordinance. The group wants to work with the city on raising subsidy money available for affordable housing, possibly by millions through dedicating the tax increment from new developments to a housing fund, or other means. They also recommend more affordable-housing construction on vacant, city-owned land.

Alan Arthur, longtime CEO of nonprofit developer-manager Aeon said inclusionary zoning has shown limited success in some cities.

"However, it is not the [solution] and avoids the real challenge," Arthur said. "We are heading toward the greatest housing problems for low-income people since the Great Depression. It will cost billions in private and public dollars. We just can't argue policy tweaks."

In short, Arthur notes that wages have eroded for working people, a third of Minnesota's new jobs pay less than $15 an hour and rents are up.

"The federal government has backed away from funding affordable housing [in real-dollar terms] since the 1980s," he said. "We're headed toward being short up to 200,000 units of affordable housing [in Minnesota]."

CEO Deidre Schmidt, of CommonBond, the area's largest affordable housing developer-owner, is concerned an ordinance could "disrupt the market" and that not all for-profit developers can handle a mix of tenants, including support services that nonprofit managers often provide.

"Regardless of what occurs in Minneapolis, I hope the city continues to invest local resources in construction, rehabilitation and preservation," she said. "The level and dependability of such investments is critical for those of us who do this work because of our mission, not a mandate like inclusive zoning. The very low-income households cannot afford housing without rent subsidies. This isn't just a supply issue."

Neal St. Anthony has been a Star Tribune business columnist and reporter since 1984. He can be contacted at nstanthony@startribune.com.

Creating an Effective and Competitive Inclusionary Housing Ordinance for Bloomington, MN

A study of options to produce affordable housing units while remaining economically attractive for development

November 2018

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A pressing need

Nearly a third of Bloomington's households earned less than $35,000 per year in 2017. According to the American Communities Survey of the US Census Bureau, these households are largely renters and, among renters, 85% or more live in housing stress, where their housing costs consume 30% or more of their gross income.

As the population of Bloomington grows, the housing stressed population may find itself under even more pressure as more people chase a housing supply that is growing more slowly than its population growth rate.

One mechanism that other jurisdictions have used to add new affordable housing units is an Inclusionary Housing Ordinance (IHO). An IHO creates a legal requirement for developers to reserve a portion of the total units that they produce for households earning less than a defined income threshold. An IHO can provide workforce housing for those earning from 110% down to less than 30% of an area's median income (AMI).

The public policy logic is that there is insufficiently available naturally occurring affordable housing (NOAH) and the portion that is available shrinks through redevelopment and rental increases, so additional supply must be brought to market to provide sufficient housing for those lower incomes households. Private sector developers tend to not produce these units on their own, so public policy requirements for the inclusion of these units is predicated on establishing a nexus between the influx of new incomes into an area and the resulting demand for low income labor and housing needs. BAE Urban Economics is conducting the nexus study for Bloomington's proposed IHO.

Typically an IHO is not the only tool used to address affordable housing needs and it may be used with a package of incentives for both market rate and affordable housing developers to ensure that the area's overall unit creation level is maintained and even increased over time for households across the income spectrum.

IHO design and implementation lessons learned

Having discussed IHO lessons learned with the administrators of IHO programs in four different jurisdictions across America (chosen because of either similarity with Bloomington's size and scale or a unique implementation approach of their IHO), a number of themes emerged regarding what makes a successful IHO.

First, developers are partners not competitors. Affordable housing units are built under an IHO only because market rate units are being built. Second, IHOs have direct impacts on the financial returns available from a project and cities should consider the resources they are willing to use to help developers to make their returns acceptable to their debt and equity capital sources. Thirdly, IHO flexibility in the application of rules, such as allowing developers to offer land or units in other locations or to partner with non-profit affordable housing partners, can create success for all parties. Fourth, IHOs require education of developer partners and city employees. Understand the training and staffing levels needed for effective rollout and sustainable management. Finally, successful IHOs are clear: they set easy to understand guidelines for affordable housing requirements, while allowing creative, flexible solutions that are targeted to the right resident populations in different parts of the city.

Development cost impacts and incentives

Financial modeling of both example and an actual multi-family housing project shows that the majority of steel-based vertical construction methods do not make financial sense given current rents in Bloomington. Low to mid-rise developments currently pencil out and make financial sense. Incentives can be used to offset the costs of the required inclusionary units. Incentives can be of two types: regulatory and financial. Regulatory incentives are those such as parking requirements and maximum unit counts per acre that the city can modify either through planning waivers, overlay zones or other administrative actions. Regulatory incentives tend to either lower the cost of required construction (such as parking stalls) or increase the project's potential to earn revenue (though density bonuses). Financial incentives, such as direct grants, tax increment financings or low-interest loans, are each powerful, but come at a direct fiscal cost to the city, in most cases requiring a pool of capital be available before these incentives can be widely in use.

Using the financial model of a real project that was submitted to the city's planning and zoning office, our estimates of financial impact for the prior incentives uses a baseline project that produces approximately 4% on an internal rate of return basis when 20% of the units are reserved for 30% AMI households. Using a combination of parking reductions, density bonuses, TIF funding and deferred permit fees, the project's rate of return increased to almost 14%. That return is nearly market rate, but ignores additional costs to the developer of needing to use a different construction method to add the bonus units (moving from stick over podium to steel construction). Taking the additional construction costs into account, the returns would not be as high as under the stick over podium approach, but would be much higher than without the incentives.

We estimate the total cost to the city of providing 20% of the equity investment needed for 344 average annual affordable housing units using a top-down approach (population-driven approach) at $7.2M / year. This number can be substantially less if the city provides less than 20% of total affordable housing equity commitments or if it uses a more creative mechanism of financing those units (project level TIFs, housing trust fund income or other approaches).

Recommendations and next steps

An IHO can be implemented in Bloomington with little impact on direct market rate unit creation if offsetting incentives to developers are provided. Since financial incentives have real costs to the city, there are additional research efforts needed to determine how much of the total potential affordable housing investment to fund and how best to fund it. In addition, nuances can be added to the IHO that take into account development activities (or lack thereof) in different areas of the city and attempt to balance development trends. NOAH housing should be additionally examined to create mechanisms to preserve its stock into the future, and the details of major renovation activities falling within the purview of the IHO should be further refined to maximize affordable unit creation without excessively dampening the resale market for existing multi-family housing.

II - Introduction

Context and need for the study

Economic development is not simply a process of attracting and retaining employment opportunities. A comprehensive approach to it evaluates how best to attract and retain labor in an area while minimizing environmental impacts from transportation while capturing tax expenditures. When employees find housing difficult or expensive to obtain and must move to different cities and commute into the area with the jobs, the additional wear and tear on roads, requirements for day-time parking and loss of tax revenues cumulatively reduce a city's economic development potential. Mitigation measures largely focus on enhancing the residential housing offerings to avoid the aforementioned negative externalities.

Bloomington is a mid-sized city of 88k persons, with a tight housing market (residential vacancy rate under 2%) and a solid employment base. A recent report by Maxfield Consulting shows that the city requires approximately 5,300 units through 2030. These incremental additions to the city's housing stock include 1,800 – 2,200 affordable housing units to adequately house its population in conditions that are not above 30% of household income (not considering the current need for affordable housing from the in place resident population in Bloomington).

The City Council is considering an Inclusionary Housing Ordinance (IHO) that would require market rate housing developers to reserve a portion of any new rental or for sale units for households that earn under 120% of the Area's Median Income (AMI).

The city, along with BAE Urban Economics, is calculating the percentage of the units to be reserved for affordable housing as well as the estimated in-lieu fee to be charged using a NEXUS study for the first task and an excel model for the second one.

Because any IHO is unlikely to be able to generate enough units to provide affordable housing for the various groups identified in the Maxfield report, and because IHOs can in theory exacerbate housing pressures by reducing the number of total units built and raising the costs of those that are built, Daedalus Advisory Services was brought in to provide analysis of the IHO's structure and potential impact on the city's competitiveness.

The core question we wanted to answer is: how can Bloomington maximize the benefits of an IHO and what other measures would help to alleviate its affordable housing pressures *while impacting the city's competitiveness as little as possible*?

Consultant's approach to the assignment

Our approach recognizes that other jurisdictions have IHO experience that can be tapped to avoid their mistakes and provide crucial guidance to Bloomington's proposed IHO. Further, because of the nuances of property development, any potential IHO had to include developer inputs and extensive financial modeling to understand the constraints under which they operate. Finally, since the IHO is one part of a wider affordable housing strategy, we did not attempt to define all possible affordable housing strategy options, but rather to focus on the development of a strong IHO onto which we could add additional affordable housing (and even market rate housing) policies incrementally over time.

III - Situation Review

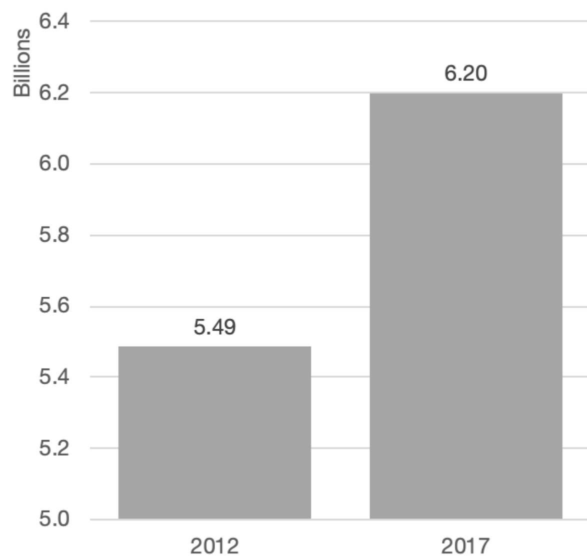
Section overview

Bloomington's economy, population, income and housing trends provide a basis for understanding the size and growth rate of factors important to the city's affordable housing situation. Using published reports and independent research, the following summary of the city's situation shows that Bloomington is a growing city with a strong economic base that continues to attract residents and grow incomes.

Economic profile

Bloomington's gross domestic product (GDP) reflects all goods and services (including government spending) produced within the city's administrative borders. As no direct measure of the city's GDP exists, the best estimate of it uses an area-wide per capita GDP figure and applies it to the city's population. This approach shows that Bloomington's GDP was $5.5B in 2012 and $6.2B in 2017 – an average annual growth rate of nearly 2.5%

Figure 1: City of Bloomington's GDP



The city's close proximity to downtown Minneapolis, transport routes, the international airport and the Mall of America have helped it continue to grow and thrive as a suburban center for various industries. The Minneapolis Metropolitan Statistical Area (MSA) is a world-class hub of companies with both national and international corporations, including eighteen Fortune 500 companies with headquarters in the area, including (among others) UnitedHealth Group, Target, Best Buy, US Bank, 3M, CHS, U.S. Bancorp, and General Mills Cargill, the largest private company in the country, is also based there.

Bloomington's economy employs 46,000 people, with most employment concentrated in professional services (the census categories of "Management of Companies & Enterprises; Finance & Insurance; and Real Estate, Rental & Leasing.") The largest industry sector is Healthcare & Social Assistance, Retail trade, and Manufacturing, and the highest paying industries are agriculture/processing, forestry, fishing, hunting, professional services, and utilities. Employment has grown slowly, recording a small growth from 2015 to 2016, of 0.19%,

According to data from the American Communities Survey (ACS) survey of the Census, this chart illustrates the share breakdown of the primary jobs held by residents.

The most common categories of jobs held by residents of Bloomington, MN, sorted by number of employees within a category are Administrative; Sales; and Management. Compared to other census places, Bloomington, MN has an unusually high number of residents working in Computer & Mathematical; Business & Financial Operations; and Architecture & Engineering.

Figure 2: City of Bloomington's employment by employment sectors

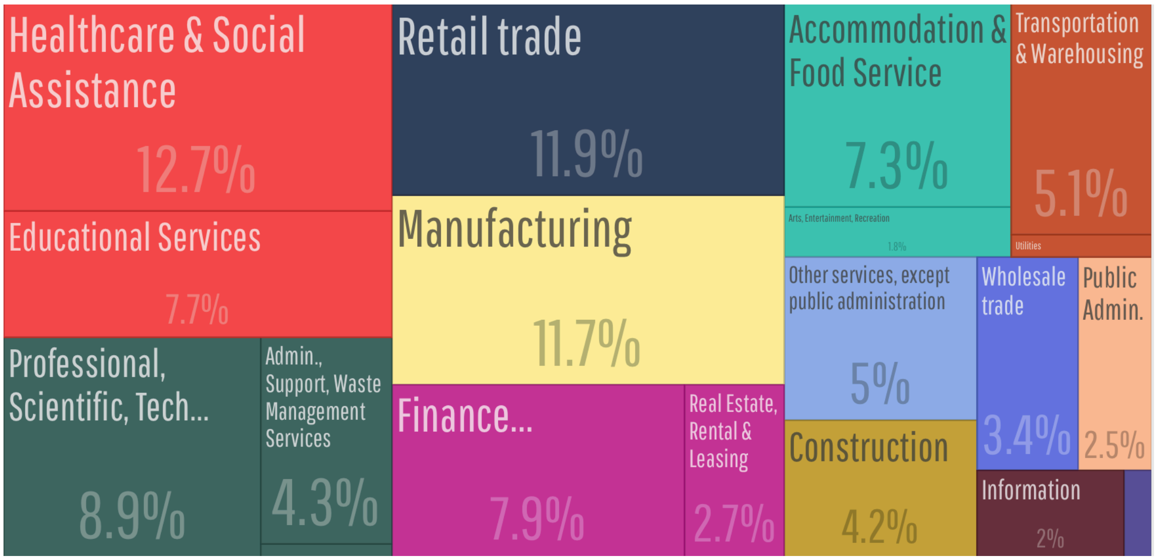
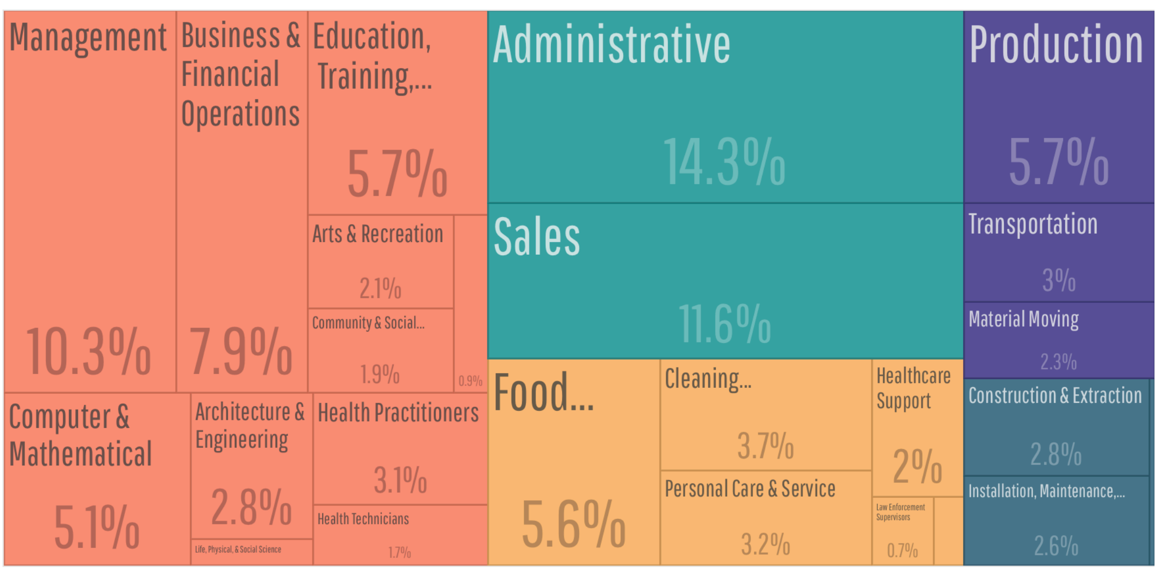


Figure 3: City of Bloomington's employment by job types



The most common employment sectors are Healthcare & Social Assistance, Retail trade, and Manufacturing. This chart shows the share breakdown of the primary industries for residents of Bloomington, MN, though some of these residents may live in Bloomington, MN and work somewhere else. Census data is tagged to a residential address, not a work address.

In terms of specific employers, the table below shows that some 25,000 workers are employed by ten companies/groups -- nearly 27% of the total jobs in the city.

Top 10 Employers in Bloomington, MN – 2016		Total Employees
1	Mall of America Tenants (retail/entertainment)	13,000
2	Health Partners (health insurance provider)	3,234
3	Bloomington School District (education)	1,940
4	Seagate Technology (computers/manufacturing)	1,580
5	Donaldson Companies, Inc. (automotive equipment)	1,002
6	The Toro Company (lawn equipment/snow blowers)	990
7	NCS Pearson, Inc. (education services and assessment)	959
8	Barr Engineering (engineering firm)	727
9	General Dynamics Advanced Information System (defense)	678
10	Express Scripts (pharmacy benefit management)	638
	Total Top 10 Employers (approx. 27% of total)	**24,748**

Other major employers include Express Scripts, Holiday Station Stores, Thermo-King/Ingersoll Rand Corp., and the City of Bloomington.

People and demographic changes

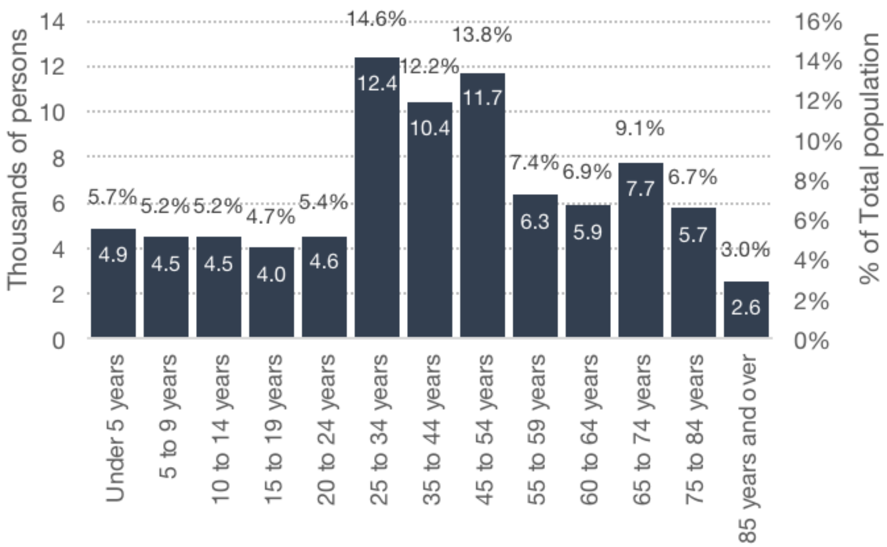
The City of Bloomington's population is estimated by the Census Bureau's American Communities Survey (ACS) 2017 figures to be roughly 85,860 persons. The population has been growing by nearly a half percent per year on a average basis since 2010. A minor drop in population in 2015 may reflect sampling differences more than an actual population decline.

Figure 4: City of Bloomington's Population

Between 2010 and 2017, the city's population grew by approximately 2,800 people, reflecting the continued growth of the city after the global financial crisis.

The age structure of the population in 2017 shows the relative allocation of each age cohort within the overall population. The large portion of the population (nearly 40%) between 25 and 54 years old. 32% of the population is 55 or older. 28% of the population is under 25.

Figure 5: City of Bloomington's Age Structure of the Population

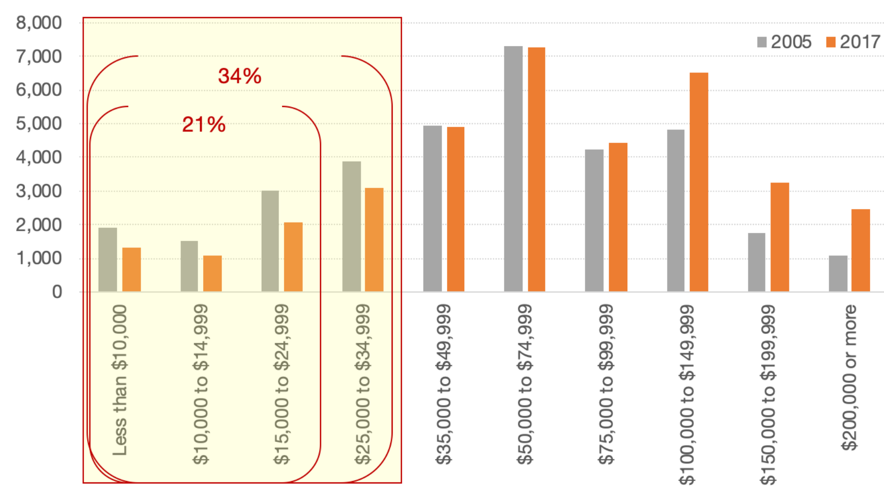


The population in the City of Bloomington is forecast to grow by 7.6% (6,297 people) and 2,760 households (7.7%) between 2010 and 2020. Population growth is expected to continue to 2030, with a forecast population growth of 2.3% (2,055 people) and 1,315 households between 2020 and 2030. The portion of the population aged 65 and older is projected to increase through 2040, reflecting the baby boom generation's cohort.

Incomes over time

The average annual personal income in Bloomington in 2017 is $36,430 a year, nearly $8,000 higher than the US average of $28,555. The average annual median household income in Bloomington in the same period is $63,053 a year, nearly $10,000 higher than the US average of $53,482.

Figure 6: City of Bloomington's Population by Income Bracket



Within the City of Bloomington, approximately one-third of the households in 2017

A 16.0% increase in median incomes is forecast between 2017 and 2022 as incomes rise from $63,902 to $74,100. Even with rising incomes, roughly 40% of Bloomington's 2017 population with incomes of $50,000 or more choose to rent versus buy.

Homeownership preferences differ by age cohort, with large numbers of households under 35 renting, then becoming homeowners as they age and have children before downsizing and often again becoming renters when the children have moved away from home. The data shows this pattern in Bloomington. Households ages 25 to 34 had a homeownership rate of 41.0%. Households ages 75+ had a homeownership rate of 82.0% while those ages 85% decreased to 65.6% as the oldest households often move to facilities with on-site medical or support services.

Additional data points about Bloomington's population that bear keeping in mind are that married couple households with and without children increased between 2010-2017, indicating likely future needs for housing units that allow for baby rooms. That said, householders living alone grew by the greatest amount of all household types.

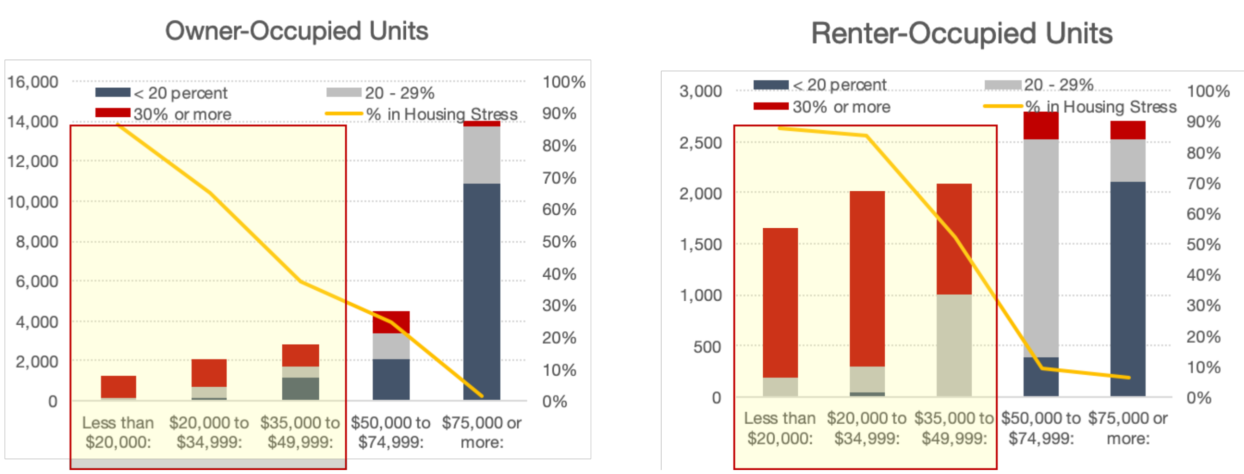
Renter households were most likely to contain one person, 43% of renter households, followed by two-person households, accounting for 30% of renter households. Family and non-family households who owned homes tend to have higher occupancies than renter households.

Most households did not move (86.5%) within the last year, and as you would expect, the portion of residents who did move was likely to be between 18 to 34 and then moving within Hennepin County. Mobility drops after age 34, but rises again beginning with households age 65 to 74 and 75 years or older. However, fully 90% or more of householders ages 55+ did not move within the last year. Older age cohorts may elect to relocate to alternative housing and the oldest households may choose to relocate to housing that provides additional support services.

Housing stress

The generally accepted standard for affordable owner-occupied housing is that a typical household can afford to pay three times annual income for rent and three and a half times annual incomes for homeownership. Paying more than that amount is considered to put the

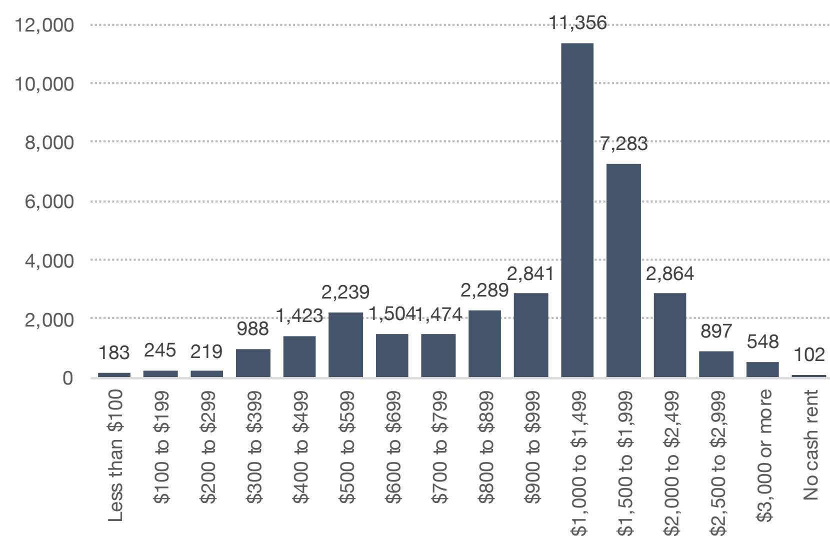
Figure 7: City of Bloomington's Households in Housing Stress



household in "housing stress," indicating that those households may have financial difficulties because of the money they must pay just to support their housing costs.

ACS data for 2017 show that owner-occupied units with occupant incomes under $50k/year have higher levels of housing stress than incomes over that level. Some portion of the lower income levels among homeowners may be fixed income seniors, however, as very low income households tend to find it difficult to finance a home purchase. Except for the lowest two income brackets, most homeowners in Bloomington are not in housing stress. On the other hand, the vast majority of renters are in housing stress if earning under $50k/year. Under $35/year, all but a small portion of the renter households are paying more than the rule of thumb limits for housing costs, being definitionally in housing stress. This portion of the rental market would be targets for future affordable housing efforts.

Figure 8: City of Bloomington's Households by Month Rent Level



Another way of looking at housing stress is to view a histogram of housing costs by occupied housing units. On this view, roughly 36% of the market pays under $1000/month for housing costs. Another 31% of area households pay between $1,000-1,500/month. The remaining 32% pays more than $1,500/month. This higher side of the monthly housing curve mostly matches the city's income levels. At the lowest income levels (under $15k/year in household income), there rental cost numbers show approximately 1,600 units being rented at that rate, but 2,400 households earning that amount or less – an 800 unit mismatch (assuming all 1,600 low rent units are being occupied by households with low incomes).

Housing stock and key trends

The current number, cost and types of housing structures are an integral part of understanding opportunities and constraints to an area's housing cost picture. Areas with a large stock of recently built housing tend to be higher priced than areas with older housing stock – though the condition of the available properties will often be worse and may lack modern amenities. Permit data gives an indication of the quantity of construction activity in different periods, a view of units produced by decade throughout the city's history.

Developers delivered 15,000 units between 2013 - 2016, according to Cushman Wakefield's 2018 research report on the Bloomington housing market. Yet, demand for units remains high. In 2017 the market absorbed 3,500 new apartment units easily and residential vacancy continues to hover around 2.5%. With potentially 5,000 apartments projected to open during or near 2018, vacancy rates may begin to rise to a healthier level of 4–5%.

We will use Maxfield Consulting as one of the core analysis components of the area's affordable housing needs, adding to it where needed (particularly with GIS-based snapshots of various topics).

In the 2000 – 2016 period, 16 single-family homes were permitted each year on average in Bloomington, townhomes, 10 and multifamily units (including senior and general occupancy rental), 145. Since 2010, 116 single-family, 36 duplex and townhome units and 1,468 multifamily units have been permitted in Bloomington.

Figure 9: City of Bloomington's Population by Income Bracket

Issued Permits in Bloomington (2000-2015)

Year	Single Famil	2-4 Units	Townhomes	Multi-Family	Total Units
2000	32	6	0	76	**114**
2001	16	4	23	21	**64**
2002	28	2	0	47	**77**
2003	21	0	17	96	**134**
2004	15	2	39	60	**116**
2005	18	0	50	358	**426**
2006	16	0	27	50	**93**
2007	11	0	5	0	**16**
2008	3	0	0	86	**89**
2009	5	0	3	196	**204**
2010	3	0	0	0	**3**
2011	21	0	3	621	**645**
2012	27	0	16	0	**43**
2013	21	0	10	250	**281**
2014	12	0	5	77	**94**
2015	17	0	0	395	**412**
Total	**266**	**14**	**198**	**2,333**	**2,811**

New multifamily rentals are, as is expected, priced at the top of the market (per square foot rents of $1.80 per square foot or higher). Older rental properties more affordable to a more households than newly developed properties, even with recent rent increases. As development costs and rental rates rise, developers may see slower absorption, which, together with increasing interest rates, would create the conditions that tend to limit the appeal of new development (though the market has not yet arrived at that state).

As of 2016, Bloomington was estimated to have 38,116 housing units: 66% owner-occupied and 34% renter-occupied. These percentages are similar to Hennepin County's 62% owner-occupied rate and the Twin Cities Metro Area rate of 73%.

1970 was the median year of construction in Bloomington and Hennepin County versus 1985 in the Twin Cities Metro Area. 64% of Bloomington's housing stock was built in the 1950's, 1960's, and 1970's, with the peak period being the 1950's. Nearly 24.4% of the area's housing was built in that decade, compared with Hennepin County's peak of 19% in the 1940's. This construction pattern likely reflects post war suburbanization and increasing car ownership.

Compared to Hennepin County and the Twin Cities Metro Area, 9.0% of Bloomington's housing stock was built since 2000 compared to 13.7% of Hennepin County's and 16.2% of the Twin Cities Metro Area's housing stock.

The Twin Cities metro residential construction activity in 2017 was at its highest level since the recession and back to its 45-year average after 12 years below it, according to the

Metropolitan Council's analysis of last year's municipal building permits. Indeed, even with recent construction activity and planned developments working through permitting, the Twin Cities area faces a housing challenge: Its population is projected to grow more quickly than its housing stock: the metro-area population is forecast to reach 3.5 million in 2030, up 21 percent from 2.9 million in 2010. Bloomington will feel the effects of this area-wide housing need and is well-placed to be seen as an affordable location within the Twin Cities metro area.

Multifamily construction accounted for 60 percent of the total units permitted in 2017. Since 2010, multi-family permits averaged roughly 64 percent of the net change (additions less destruction of housing stock) in metro-area housing. This trend of multi-family permitting appears set to continue for the foreseeable future, even as it has slowed in other parts of the state and country.

Affordable housing in particular

Turning our attention to the portion of the market that is under current or projected housing stress (largely as a function of having income lower than average rents), Maxfield Consulting has created a summary table of potential unit-level demand. The summary includes market rate, shallow subsidy (down to 50-60% AMI), and deep subsidy (under 50%). The shallow subsidy units are those that can be considered workforce housing, while the deep subsidy units reflect deeper challenges that often require supportive services.

As part of the analysis, Maxfield Consulting also looked at the senior housing market, recognizing that that portion of the population base is growing quickly and that they often have fixed incomes that can quickly become under stress from housing costs.

Their analysis shows that nearly 2,900 units of non-senior housing and another 2,500 units of senior housing may be needed in Bloomington from 2017 to 2030. This is a conservative estimate that is driven by existing population trends remaining more or less as they were projected to be in 2017.

Figure 10: Summary of Bloomington's Housing Demand

Summary of Bloomington housing demand for net new housing units
As of April 2017

	2017-2030	Annually
General occupancy	2,861	220
Rental units	**1,913**	**147**
Market rate	849	65
Shallow subsidy	745	57
Deep subsidy	319	25
For sale units	**948**	**73**
Single family	227	17
Multi family	721	55

	2017	2030
Age restricted (senior)	2,467	3,472
Market rate	**1,897**	**2,742**
Adult few services (active adult)	861	1,409
Ownership	*264*	*538*
Rental	*597*	*871*
Congregate	417	402
Assisted licing	371	553
Memory care	248	378
Shallow subsidy	**570**	**730**
Active adult - shallow subsidy	465	537
Active adult - deep subsidy	105	193

Source: Maxfield Research and Consulting 2017, Daedalus Advisory Services

Of the projected units needed, approximately 1,800 are considered traditionally affordable, and perhaps 2,200 if the band for affordable housing is extended up to 120% AMI. This total would translate to 220-250 units/year built between now and 2030 to support projected population growth. Existing needs for affordable housing are not included in these unit numbers as the analysis is focused on incremental housing needs from population growth and assesses affordable needs primarily from an income band perspective.

IV - IHO Lessons Learned

Background and selection of relevant IHO programs to analyze

In an era of decreasing federal subsidies for affordable housing and increasing financial burdens on governments at the local and state levels, implementation of an inclusionary housing policy seems promising. In addition, the combination of higher demand for housing and insufficient creation of supply has inevitably pushed up real estate prices across many jurisdictions. City governments and housing policy advocates are interested in solving this problem using a number of mandatory, voluntary and creative financing, inclusing public private partnership methods.

Inclusionary housing ordinances, in tandem with other programs can stimulate the production of affordable housing units through often, mandatory interventions in local zoning codes. Under such inclusionary zoning, without significant financial subsidies from local governments developers are required by law to build a designated percentage of affordable housing in new residential or mixed-use developments. There are at least an estimated 500 inclusionary housing programs in jurisdictions nationwide, with several jurisdictions that are administering decades old programs.

According to Thaden's report[1] – "the most comprehensive investigation on inclusionary housing conducted to date, this study identifies 886 jurisdictions with inclusionary housing programs located in 25 states and the District of Columbia at the end of 2016. The vast majority of jurisdictions with inclusionary housing are located in New Jersey (45 percent), Massachusetts (27 percent), and California (17 percent).

Although comprehensive data on impact and program characteristics was not available for the majority of programs, the study did find that 373 jurisdictions reported a total of $1.7 billion in impact or in-lieu fees for the creation of affordable housing. Jurisdictions also reported creating a total of 173,707 units of affordable housing, which predominantly excludes additional units created with the $1.7 billion in fees:

- 443 jurisdictions reported creating 49,287 affordable homeownership units;
- 581 jurisdictions reported creating 122,320 affordable rental units; and
- 164 jurisdictions reported an additional 2,100 affordable homes."

While the range, scope and depth of inclusionary housing policies is wide, we have selected the following 4 cities as case studies for Bloomington:

[1] Inclusionary Housing in the United States: Prevalence, Impact, and Practices Working Paper WP17ET1, Emily Thaden, Ph.D. Grounded Solutions Network, Ruoniu Wang, Ph.D. Grounded Solutions Network

Table 1: Sample Cities with on-going IHO programs

	City	Description and Rationale
1.	Montgomery County, MD	Surrounding Washington DC. Pioneer in affordable housing and significant unit production track record. Innovative program addressing urban and peri-urban areas experiencing rapid economic growth and housing costs. Achieved more than 12,000 units delivered since inception, refined mix of incentives, attention to un-intended consequences, highly integrated approach with other local housing initiatives.
2.	Denver, CO	New IHO program (since 2013), revised 2014 designed to address fast growth with wide range of incentives designed to stimulate production in specific locations. IHO design is unit production focused, with innovations addressing off-site and in-lieu payments.
3.	Carlsbad, CA	Northern suburban city near San Diego, CA. Strong desire for economic integration. Positive unit production experience; 2,000+ units delivered since 1993.
4.	Evanston, IL	Northern suburb of Chicago, IL with major university anchor. New IHO launched 2016, with revisions underway for 2018. Progressive IHO design to bring in isolated groups, strong connect with economic objectives and sustained job growth.

1. Montgomery County, MD

Overview: Montgomery County, MD has a population of 1.04M people with a median age of 39 and a median household income of $99,763. Between 2015 and 2016 the population of Montgomery County, MD grew from 1.04M to 1.04M, a 0.36% increase and its median household income grew from $98,917 to $99,763, a 0.86% increase. The population of Montgomery County, MD is 44.5% White, 19.1% Hispanic, and 17.8% Black. 41% of the people in Montgomery County, MD speak a non-English language, and 84.8% are U.S. citizens.

IHO Objective and Design: According to the county's program website, "Montgomery County's moderately priced dwelling unit (MPDU) program is one of the nation's first mandatory, inclusionary zoning laws. It was implemented 1973 to help meet the goal of providing a full range of housing choices in the county for all incomes, ages and household sizes. An MPDU is a county government-regulated unit that is required to be affordable to households earning 65 percent of area median income (AMI) for garden-style apartments and 70 percent for high-rise apartments.

Program Highlights:

The program's implementation involves both the public and private sectors, with the local government performing regulatory and administrative functions, and the building industry producing the housing. Between 12.5-15% of the total number of units in every subdivision or high-rise building of 20 or more units must be moderately priced, according to the MPDU regulation.

Effective October 31, 2018, developments with less than 20 but more than 10 units are required to make a payment to the Housing Initiative Fund in lieu of an MPDU requirement on-site. A goal of the Montgomery County Housing Policy states that affordable housing should be available to people of all incomes. To help achieve this goal, the County Council passed the Moderately Priced Housing (MPH) Law in 1974. A provision of the MPH Law requires that between 12.5% and 15% of the houses in new subdivisions of 20 or more units be moderately priced dwelling units (MPDUs). The MPH Law requires that 40% of the MPDUs be offered to the Housing Opportunities Commission (HOC) and other non-profit housing agencies for use by low and moderate income families. Connecting MPDU eligibility expressly to household income as opposed to the MPDU sale price and financing information. MOCO does not permit TIF's as part of the IHO, since financial advisors recommended against potentially impacting County's credit rating.

Requirements:

- 15 percent MPDUs in planning areas in which at least 45 percent of the United States Census tracts have a median household income of at least 150 percent of the countywide median household income.
- Typology includes detached and semi-detached homes (duplexes), townhouses, garden condominiums and high-rise condominiums and apartments.
- Sales prices and rental limits are reviewed annually and are revised to reflect changes in construction costs.
- Agreement must requires a specific number of MPDUs must be constructed on an approved time schedule; in single-family dwelling unit subdivisions, each MPDU must

have 3 or more bedrooms; and in multi-family dwelling units subdivisions, the number of efficiency and one-bedroom MPDUs each must not exceed the ratio that market-rate efficiency and one-bedroom units respectively bear to the total number of market-rate units in the subdivision.

- MPDUs are built along with or before other dwelling units; no or few market rate dwellings are built before any MPDUs are built; the pace of MPDU production reasonably coincides with the construction of market rate units; and the last building built must not contain only MPDUs.

Incentives

Density bonus: current 22% bonus density provision. The percentage of MPDUs required varies from 12.5% to 15% of the total number of units in the development, with the actual percentage for any particular development based upon the density bonus achieved. Developments that receive no density bonus are still required to provide 12.5% of the total number of units as MPDUs. In the recent past, density bonus as n incentive proved to be of limited value to MOCO developers mainly due to lot sizes and height issues in key development sites and corridors.

Fee waivers: At present, the development fee waiver is popular with developers. Other fees such as the Systems Development Charge (SDC) imposed by the Washington Sanitary Sewer Commission (WSSC), and the development impact tax collected by DPS may also be waived for MPDUs upon request and approval. MPDUs also qualify for "green tape" processing status at DPS.

Unit requirements: Allowing the MPDU requirement to be calculated based on floor area ratio instead of a percentage of total units. The FAR-based method permits market-rate projects to satisfy the MPDU requirement as a percentage of square feet of the building, allowing units to be larger than are offered as a percentage of total market-rate units.

In-lieu payments: MOCO rarely sees or allows “in lieu” payments, some exceptions are seen for high price condo projects or where HOA costs are also very high, or for strict environmental purposes. These are typically set at 3% of gross price in practice. These payments work out to a slightly better deal as compared to incorporating units – works well as an incentive. Funds go to Housing Initiative Fund (HIF) which has a broad program to support.

Other features: Housing policy or IHO can refer to new sources of “land” – e.g., parking lots – MOCO deliberately designed a sub-program “parking lots to places” and these included gas stations and lost industrial spaces. This allowed more land for development and affordable units.

- Same with Adaptive Housing – going from office to residential has merit in tight markets.
- MOCO does not permit TIF’s as part of the IHO, since financial advisors recommended against potentially impacting County’s credit rating.

2. Denver, CO

Overview: Denver, CO has a population of 693,060 people with a median age of 34.4 and a median household income of $61,105. Between 2015 and 2016 the population of Denver, CO grew from 682,545 to 693,060, a 1.54% increase and its median household income grew from $58,003 to $61,105, a 5.35% increase.

The population of Denver, CO is 54% White, 30.2% Hispanic, and 9.2% Black. 25.9% of the people in Denver, CO speak a non-English language, and 90.8% are U.S. citizens.

IHO Objective and Design: Denver is at a pivotal point in its search for more affordable housing, where despite extremely low unemployment (2.2%), high workforce participation (90%+), and solid city economic growth, housing costs are growing at such a rapid pace that incomes cannot keep up. There are about 150,000 renter households in Denver; about 61% of these households earn less than $50,000. Half of Denver's renters pay more than 30% of their income for housing; nearly a quarter of these households pay more than 50% for housing.

Program Highlights: The Inclusionary Housing Ordinance requires 10% affordability in new, for-sale developments of 30 or more units. Revisions to Denver's Inclusionary Housing Ordinance (IHO) were passed by Council in two phases. The first round of revisions to the IHO, passed in June of 2013, supported better-educated homeowners, and created circumstances that increase a family's ability to avoid foreclosure and build wealth in diverse neighborhoods. The second phase, guided by an economic study of Denver's housing needs, was passed by City Council in August 2014, and recalibrated the developer requirements to help build more homes, and provide a more flexible range of options to do so.

Denver Inclusionary Zoning Required or voluntary participation of new developments:

- Required participation of all new developments and also existing buildings that are being substantially rehabilitated or remodeled to provide dwelling units (Section 27-104). Applications for building permits must include a Moderately Priced Dwelling Unit (MPDU) plan otherwise they will not be approved by the City and County of Denver Community Planning and Development Agency (CPDA) (Section 27-106).
- Alternatives to providing MPDUs include building more MPDUs at one or more other sites in the same or adjoining statistical neighborhood, or a contribution to the special revenue fund that is equal to 50% of the price per MPDU that is not provided. The prices are determined by CPDA and their table of current maximum sales prices (Section 27-106).
- Developers also receive incentives for building MPDUs as a reimbursement of $5,000 per unit built, up to 50% of the total units in a development, and $10,000 per MPDU built that is affordable for households earning no more than 60% AMI, up to 50% total units built. However, the reimbursement amount is limited to the amount available in the special revenue fund, and is awarded by the director of CPDA (Section 27-107).
- Supplemental incentives include density bonuses of up to 10% if one unit is MPDU, parking requirement reduction of up to 20% if one MPDU is built for every 10 spaces reduced, and expedited processing of building plans if all MPDU requirements are met in plan (Section 27-108).

Minimum project size (#of units): Developments with a total of 30 or more units are required to provide 10% MPDUs, which are affordable to households earning no more than 80% of AMI. Developments with 3 or more stories, elevators, and 60% structured parking, must also provide 10% of total units as MPDUs, which are affordable for households earning no more than 95% AMI. Maximum purchase prices for MPDUs is determined by the CPDA and is adjusted according to number of bedrooms with a maximum down payment of 5% (Section 27-105).

Guidelines for location and design of affordable housing within market-rate developments: MPDUs are required to be indistinguishable from market-rate units and depending on the size of the development they must be dispersed in two or more locations throughout the development. In single-family developments MPDUs must have 2 or more bedrooms, and in multi-family dwelling units the ratio of one bedroom units must not exceed that of the market-rate units (Section 27-106).

Limits to determine household eligibility for affordable units (AMI range):

Eligibility is determined by AMI calculation adjusted for household size, low and moderate household income are targeted with incomes no more than 80% or 95% AMI depending on the development. Unit must also be the primary residence of eligible household (Section 27-110).

Results

Since this ordinance was put into effect in 1976, the city has experienced the construction of over 15,051 units. The table below shows production since 2010:

Year	For Sale	For Rental	Total
2010	60	170	230
2011	113	0	113
2012	152	77	229
2013	141	435	576
2014	169	167	336
2015	150	185	335
2016	84	245	329

Since the program's inception in 1976, average annual production through 2016:

- For sale 244
- Rental 124
- Total 367

Approximate numbers of MPDUs under control

- For sale 1,344*
- Rental 2,230

** units under private ownership, not including units owned by the Housing Opportunities Commission (HOC)*

3. Evanston, Il

Overview: Evanston, IL has a population of 75,472 people with a median age of 35.3 and a median household income of $71,317. Between 2015 and 2016 the population of Evanston, IL declined from 75,603 to 75,472, a 0.17% decrease and its median household income grew from $70,041 to $71,317, a 1.82% increase.

The population of Evanston, IL is 58.9% White, 16.8% Black, and 11% Hispanic. 23.6% of the people in Evanston, IL speak a non-English language, and 89.5% are U.S. citizens.

IHO Objective and Design: The purpose of IHO is to promote public health, safety, and welfare of the residents of Evanston by requiring residential developments or developments which contain a residential component to include a certain percentage of dwelling units in a proposed development to be priced affordably for low and moderate income households or make a financial contribution to the Affordable Housing Fund in accordance with the terms of the adopted ordinance.

Program Highlights: The amended Inclusionary Housing Ordinance (IHO) was implemented in January 1, 2016.

- General Requirement: For privately funded developments, 10% of the total number of dwelling units in a covered development shall be affordable dwelling units. For properties receiving public funds, 20% of the total number of dwelling units in a covered development shall be affordable dwelling units
- A development containing five (5) or more dwelling units in a TOD area or a development containing ten (10) or more dwelling units outside a TOD area. Coverage includes: a) development that is new residential construction or new mixed use construction with a residential component.; b) development that is the renovation, repurposing or reconstruction of an existing multiple-family residential structure that changes the use from rental to owner occupied units or vice versa, and c) development that will change the use of an existing building from nonresidential to. Residential, and d) a development built in phases.
- The fee in lieu amount per affordable dwelling unit shall be either one hundred thousand dollars ($100,000) for units in a TOD area or seventy- five thousand ($75,000) per affordable dwelling unit in a non-TOD area. The fee in lieu is subject to annual review and revision by the city council.
- Alternative Equivalent Proposals will be reviewed - an applicant may propose to meet IHO requirements by an alternative equivalent action, subject to the review and approval by the City Council. A proposal for an alternative equivalent action may include, but is not limited to, the construction of affordable dwelling units on another site, or acquisition and enforcement of affordability restrictions on existing market rate dwelling units so as to render them affordable dwelling units, or fewer on-site affordable units at prices affordable to households at lower income levels, such as 30% AMI.

Incentives:

- Expedited Application Process

- Fee Deferral: All city required fees related to the covered development shall be for plan review, building permit fees or other similar development review fees for the non-affordable dwelling units, which are not subject to a fee waiver, shall be deferred for payment until the issuance of the first temporary certificate of occupancy for a non-affordable dwelling unit. The project applicant shall not receive a fee deferral from payment for any other City fees associated with the covered development, including but not limited to right-of-way fees, demolition fees, and fees related to the commercial portion(s) of the development.

- Fee Waiver: All projects with a covered development which must comply with the requirements of the IHO shall be exempt from all plan review, building permit fees or other similar development review fees for the affordable units. Whenever a project includes a combination of affordable and market rate housing units, fees shall be pro-rated appropriately as determined by the IHO office.

- Bonuses: Density, height, and FAR (floor area ratio) requirements provided in Title 6 are hereby amended for covered developments that provide on-site affordable units, the development is entitled to the following bonuses:

Development Bonus	In TOD Area	Outside TOD Area
Density	20% bonus	10% bonus
Height	10% bonus	5% bonus
FAR	10% bonus	5% bonus

- Parking reductions

Parking Bonus	In TOD Area	Outside TOD Area
0-1 Bedroom	0.5 parking space	0.75 parking space
2 Bedrooms	1 parking space	1.25 parking space
3+ Bedrooms	1.25 parking space	1.5 parking space

Results

- Since this ordinance was put into effect in 2016, the city has experienced the construction of over XXX units.

4. Carlsbad, CA

Overview

Carlsbad, CA in northern San Diego County has a 2017 population of 112,008 people with a median age of 42.3 and a median household income of $97,145. Between 2015 and 2016 the population of Carlsbad, CA grew from 110,830 to 112,008, a 1.06% increase and its median household income grew from $90,597 to $97,145, a 7.23% increase. The population of Carlsbad, CA is 73.8% White, 14.1% Hispanic, and 7.5% Asian. 17.6% of the people in Carlsbad, CA speak a non-English language, and 94.9% are U.S. citizens.

IHO Objective and Design

The City of Carlsbad adopted the Inclusionary Housing Program in 1993 as an outgrowth of the 1990 Housing Element review. The Program was designed to assist the City in reaching its lower-income housing goals. Specifically to ensure that all residential development, including all master planned and specific planned communities and all residential subdivisions provide a range of housing opportunities for all identifiable economic segments of the population, including households of lower and moderate income. It is also the policy of the city to:

- Require that a minimum of fifteen percent of all approved ownership and qualifying rental units be restricted to and affordable to lower-income households; subject to adjustment based on the granting of an inclusionary credit;
- Require that for those developments which provide ten or more units affordable to lower-income households, at least ten percent of the lower-income units shall have three or more bedrooms;
- Under certain conditions, allow alternatives to on-site construction as a means of providing affordable units; and
- In specific cases, allow inclusionary requirements to be satisfied through the payment of an in-lieu fee as an alternative to requiring inclusionary units to be constructed.

Program Highlights

Covers all residential market-rate dwelling units resulting from new construction of ownership units, including the conversion of apartments to condominiums and to new construction of rental units where the developer receives direct financial assistance, offsets, or any incentive. Any developer not receiving direct financial assistance, offsets, or other incentives may voluntarily agree to provide inclusionary rental units.

- For development of seven or more units, not less than fifteen percent of the total units approved are to be affordable.
- For those developments which are required to provide ten or more units affordable to lower-income households, at least ten percent of the lower-income units shall have three or more bedrooms.
- Alternative to the construction of new inclusionary units is acceptable. Alternatives may include, but not be limited to, acquisition and rehabilitation of affordable units, conversion of existing market-rate units to affordable units, construction of special needs housing projects or programs (shelters, transitional housing, etc.), and the construction of second dwelling units.

- Offsite construction can satisfy affordable housing requirements if shown that objectives can be met by allowing some or all of the inclusionary units associated with one residential project site to be produced and operated at an alternative site or sites.
- Offsets will be offered by the city to the extent that resources and programs for this purpose are available.
- For any qualifying residential development or development revision of less than seven units, the inclusionary requirements may be satisfied through the payment to the city of an in-lieu fee.
- In-lieu fees to be paid for each market-rate dwelling unit are 15% of the subsidy needed to make affordable to a lower-income household one newly constructed, typical attached-housing unit. This subsidy shall be based upon the city council's determination of the average subsidy that would be required to make affordable typical, new two-bedroom/one-bath and three-bedroom/two-bath ownership units and rental units, each with an assumed affordability tenure of at least fifty-five years.
- All in-lieu fees are to be paid to a housing trust fund. At the discretion of the city council, where a developer is authorized to pay a fee in lieu of development, an irrevocable dedication of land or other non-monetary contribution of a value not less than the sum of the otherwise required in-lieu fee may be accepted as an alternative to paying the in-lieu fee.
- Consultant study recommends that the City consider an impact fee that does not exceed $20,000 per unit or $20 per SF.

Incentives

Affordable housing projects that qualify can utilize from the following incentives or concessions:

- A reduction in site development standards or a modification of zoning code or architectural design requirements (excluding State Building Standards), that results in identifiable, financially sufficient and actual cost reductions. A reduction/modification to standards or requirements may include, but is not limited to, a reduction in minimum lot size, setback requirements, and/or in the ratio of vehicular parking spaces that would otherwise be required.
- Approval of mixed use zoning in conjunction with the housing development if: (i) commercial, office, industrial or other land uses will reduce the cost of the housing development; and (ii) the commercial, office, industrial, or other land uses are compatible with the housing development and the existing or planned future development in the area where the proposed project will be located.
- Other regulatory incentives or concessions that result in identifiable, financially sufficient and actual cost reductions.
- The city council may, but is not required to, provide direct financial incentives, including the provision of publicly owned land, or the waiver of fees or dedication requirements.

For qualifying projects:

- One incentive or concession for projects that include at least 10% of the total units for lower-income households, at least five percent for very low-income households, or at least 10% for persons and families of moderate income in a common interest development.
- Two incentives or concessions for projects that include at least 20% of the total units for lower-income households, at least 10% for very low-income households, or at least 20% for persons and families of moderate income in a common interest development.
- Three incentives or concessions for projects that include at least 30% of the total units for lower-income households, at least 15% for very low-income households, or at least 30% for persons and families of moderate income in a common interest development.

Results

Since this ordinance was put into effect in 1993, the city has experienced the successful construction of over 2,000 units of housing affordable to low, very low and extremely low income households.

V - Quantifying potential impacts

Approach

To evaluate the likely impact of in lieu fees on the financial returns of multi-family unit development as well as any potential social housing subsidiary (a city-led effort to directly create new affordable housing units), Daedalus designed and built a custom excel financial model. We did not model potential incentives to offset the costs imposed by the IHO in this model, but in a separate model for an actual project in planning currently.

This model evaluates four strategies:

1 – All market rate units with no in-lieu fees

2 - All market rate units with $50k per affordable unit in-lieu fees

3 - All market rate units with $100k per affordable unit in-lieu fees

4 – An 80-20% market – affordable development

Each strategy runs iterations along a line of increasing unit counts, from five to three-hundred units, to understand how potential returns change as unit numbers increase.

The model assumes a standard land cost per acre of $750,000 that is applied according to a scaled use of land for a given number of units (see image at right).

Land area	
DU/Acre	Req'd acres
25	0.20
25	1.00
60	0.83
60	1.67
60	2.50
90	2.22
90	3.33

There are numerous differences across the inputs and discount rates for each of the strategies and unit counts in the model, but we generally tried to maintain changes to only the most important elements.

The model's project cost estimates include land, building and parking hard costs, soft costs and financing costs. RS Means data provides our hard cost estimates for building costs, parking and soft costs come from a combination of industry knowledge and discussions with local developers. Financing costs come from the model (for interest carry during construction) and industry knowledge for lender point averages and rates.

As there are many types of construction approaches, materials and finishes, we used samples from RS Means that were appropriate for the scale of units that we evaluated. It is not practical to attempt to model all potential construction types for all potential developments or redevelopments. The scale differences in the strategies above give users a clearer understanding of how a notional developer's decision-making may be impacted by changes to incentives or fees.

Our intention with modeling the strategies and unit iterations is to allow a conversation among the city's key stakeholders that takes into account how best to craft legislation that does not create conditions that reduce the number of total residential units being developed, while also providing calculations of potential in-lieu fees to determine their impact on the project's returns.

Modeling approach and key assumptions

Financial models require input assumptions about a range of items: the property itself (size, bedrooms, common areas, etc), the timing of the key events in the property's lifecycle, development costs (land, construction, soft and financing costs), sales rates (cap rates and sales period), and financing details for the construction and permanent loans. For a standard real estate financial model, it is not uncommon to have more over 100 input items, once input rates and quantities are accounted for.

When creating multiple models, such as we have done in this exercise, the input challenge quickly becomes vast. To manage this many model options, we have set some inputs as fixed across all models, such as the square footage needed for a parking stall (330), while allowing for flexible inputs for rental rates, discount rates and hard costs that would apply to some or all of the models at once.

Figure 11: Development costs per square foot by strategy and project

	Active?	Option	Units	Land acq cost	Land prep co	Hard costs	Parking	Soft costs	In Lieu	Dev fee	Contingency	Units	Total $/GSF
	Yes												
Market	Yes	1	5	$ 40.71	$ 2.71	$ 110.00	$ 8.82	$ 20.29	$ -	$ 4.25	$ 7.09	5	$ 193.87
	Yes	2	25	$ 16.96	$ 2.71	$ 170.00	$ 8.82	$ 27.63	$ -	$ 6.28	$ 10.46	25	$ 242.86
	Yes	3	50	$ 16.07	$ 2.57	$ 170.00	$ 8.35	$ 25.89	$ -	$ 6.20	$ 10.34	50	$ 239.42
	Yes	4	100	$ 15.17	$ 2.43	$ 185.00	$ 28.09	$ 26.24	$ -	$ 6.04	$ 12.09	100	$ 275.06
	Yes	5	150	$ 15.17	$ 2.43	$ 165.00	$ 28.84	$ 23.44	$ -	$ 5.49	$ 10.99	150	$ 251.36
	Yes	6	200	$ 10.11	$ 2.43	$ 210.00	$ 29.22	$ 29.74	$ -	$ 6.78	$ 13.57	200	$ 301.85
	Yes	7	300	$ 10.11	$ 2.43	$ 205.00	$ 29.59	$ 29.04	$ -	$ 6.65	$ 13.30	300	$ 296.13
	Yes												
Market $50k IL	Yes	8	5	$ 40.71	$ 2.71	$ 110.00	$ 8.82	$ 20.29	$ 13.57	$ 4.25	$ 7.09	5	$ 207.44
In lieu fee	Yes	9	25	$ 16.96	$ 2.71	$ 170.00	$ 8.82	$ 27.63	$ 13.57	$ 6.28	$ 10.46	25	$ 256.43
$ 50,000	Yes	10	50	$ 16.07	$ 2.57	$ 170.00	$ 8.35	$ 25.89	$ 12.85	$ 6.20	$ 10.34	50	$ 252.28
	Yes	11	100	$ 15.17	$ 2.43	$ 185.00	$ 28.09	$ 26.24	$ 12.14	$ 6.04	$ 12.09	100	$ 287.20
	Yes	12	150	$ 15.17	$ 2.43	$ 165.00	$ 28.84	$ 23.44	$ 12.14	$ 5.49	$ 10.99	150	$ 263.49
	Yes	13	200	$ 10.11	$ 2.43	$ 210.00	$ 29.22	$ 29.74	$ 12.14	$ 6.78	$ 13.57	200	$ 313.99
	Yes	14	300	$ 10.11	$ 2.43	$ 205.00	$ 29.59	$ 29.04	$ 12.14	$ 6.65	$ 13.30	300	$ 308.26
	Yes												
Market $100k IL	Yes	15	5	$ 40.71	$ 2.71	$ 110.00	$ 8.82	$ 20.29	$ 27.14	$ 4.25	$ 7.09	5	$ 221.01
In lieu fee	Yes	16	25	$ 16.96	$ 2.71	$ 170.00	$ 8.82	$ 27.63	$ 27.14	$ 6.28	$ 10.46	25	$ 270.00
$ 100,000	Yes	17	50	$ 16.07	$ 2.57	$ 170.00	$ 8.35	$ 25.89	$ 25.71	$ 6.20	$ 10.34	50	$ 265.13
	Yes	18	100	$ 15.17	$ 2.43	$ 185.00	$ 28.09	$ 26.24	$ 24.27	$ 6.04	$ 12.09	100	$ 299.34
	Yes	19	150	$ 15.17	$ 2.43	$ 165.00	$ 28.84	$ 23.44	$ 24.27	$ 5.49	$ 10.99	150	$ 275.63
	Yes	20	200	$ 10.11	$ 2.43	$ 210.00	$ 29.22	$ 29.74	$ 24.27	$ 6.78	$ 13.57	200	$ 326.12
	Yes	21	300	$ 10.11	$ 2.43	$ 205.00	$ 29.59	$ 29.04	$ 24.27	$ 6.65	$ 13.30	300	$ 320.40
	Yes												
Affordable	Yes	22	5	$ 40.71	$ 2.71	$ 110.00	$ 8.82	$ 20.29	$ -	$ 4.25	$ 7.09	5	$ 193.87
	Yes	23	25	$ 16.96	$ 2.71	$ 170.00	$ 8.82	$ 27.63	$ -	$ 6.28	$ 10.46	25	$ 242.86
$ -	Yes	24	50	$ 16.07	$ 2.57	$ 170.00	$ 8.35	$ 25.89	$ -	$ 6.20	$ 10.34	50	$ 239.42
	Yes	25	100	$ 15.17	$ 2.43	$ 185.00	$ 28.09	$ 26.24	$ -	$ 6.04	$ 12.09	100	$ 275.06
	Yes	26	150	$ 15.17	$ 2.43	$ 165.00	$ 28.84	$ 23.44	$ -	$ 5.49	$ 10.99	150	$ 251.36
	Yes	27	200	$ 10.11	$ 2.43	$ 210.00	$ 29.22	$ 29.74	$ -	$ 6.78	$ 13.57	200	$ 301.85
	Yes	28	300	$ 10.11	$ 2.43	$ 205.00	$ 29.59	$ 29.04	$ -	$ 6.65	$ 13.30	300	$ 296.13

The input assumptions that we focused on were those that tend to be the most important for determining underlying project fundamentals (core costs, rental rates, cap and discount rates).

Beginning with All-In costs per square foot (land, hard, soft and financing costs), the table at right summarizes costs by the number of units in a development. The costs rise as structural component costs increase for larger buildings (from wood to steel, for example). These costs are not completely linear because although there may be a breakpoint at 100 units, there may not be an economy of scale until more units are built within that construction method.

All in development costs range from $193.87 / gross square foot for a five-unit building to $296.13 / gross square foot for a three hundred-unit building. As the building size increases, we selected options from RS Means that were appropriate for the scale of construction being proposed. For up to fifty- units, we estimated a hardi-board over stick project. For one hundred units, we proposed brick over steel. For one hundred to two hundred units, we proposed an exterior insulated finishing product over steel. Finally, for the three-hundred unit building, we went back to brick over steel. In all cases over one hundred units, we added two additional elevators (typically 2500 or 3500 pound options) to RS Means' default options.

Unit sizes were held constant for all building sizes at 700 square feet (net). The model did not attempt to create variations on unit types (studios, 1, 2 and 3 bedrooms) and then estimate the allocation of those units within each potential building. The likelihood that we could allocate the units as a developer would in a specific location or to match the specific market details is low. Instead, the model maintains a single unit type and size to focus attention on how the building performs under the controlled changes within the various options.

Market rents in the model began at $1250 per unit per month for a five unit building and escalated to $1,600 per unit per month in a three-hundred-unit building. Those rent levels on a per net square foot level range from $1.79 to $2.29 and essentially have to increase along with construction costs for any project of this size to even potentially generate a financial profit. Even set at these rent levels (as we shall see), the larger projects are not feasible without even higher rents.

Figure 12: Development inputs by strategy and project

	Active?	Option	Units	Market	Affordable	NSF/Unit	Net to Gross	M-rent	A-Rent	M $/GSF	A $/GSF
	Yes										
Market	Yes	1	5	5	0	700	95%	$ 1,250	$ 500	$ 1.79	$ 0.71
	Yes	2	25	25	0	700	95%	$ 1,300	$ 500	$ 1.86	$ 0.71
	Yes	3	50	50	0	700	90%	$ 1,350	$ 500	$ 1.93	$ 0.71
	Yes	4	100	100	0	700	85%	$ 1,400	$ 500	$ 2.00	$ 0.71
	Yes	5	150	150	0	700	85%	$ 1,450	$ 500	$ 2.07	$ 0.71
	Yes	6	200	200	0	700	85%	$ 1,600	$ 500	$ 2.29	$ 0.71
	Yes	7	300	300	0	700	85%	$ 1,600	$ 500	$ 2.29	$ 0.71
	Yes			100%	0%						
Market $50k IL	Yes	8	5	5	0	700	95%	$ 1,250	$ 500	$ 1.79	$ 0.71
In lieu fee	Yes	9	25	25	0	700	95%	$ 1,300	$ 500	$ 1.86	$ 0.71
$ 50,000	Yes	10	50	50	0	700	90%	$ 1,350	$ 500	$ 1.93	$ 0.71
	Yes	11	100	100	0	700	85%	$ 1,400	$ 500	$ 2.00	$ 0.71
	Yes	12	150	150	0	700	85%	$ 1,450	$ 500	$ 2.07	$ 0.71
	Yes	13	200	200	0	700	85%	$ 1,600	$ 500	$ 2.29	$ 0.71
	Yes	14	300	300	0	700	85%	$ 1,600	$ 500	$ 2.29	$ 0.71
	Yes			100%	0%						
Market $100k IL	Yes	15	5	5	0	700	95%	$ 1,250	$ 500	$ 1.79	$ 0.71
In lieu fee	Yes	16	25	25	0	700	95%	$ 1,300	$ 500	$ 1.86	$ 0.71
$ 100,000	Yes	17	50	50	0	700	90%	$ 1,350	$ 500	$ 1.93	$ 0.71
	Yes	18	100	100	0	700	85%	$ 1,400	$ 500	$ 2.00	$ 0.71
	Yes	19	150	150	0	700	85%	$ 1,450	$ 500	$ 2.07	$ 0.71
	Yes	20	200	200	0	700	85%	$ 1,600	$ 500	$ 2.29	$ 0.71
	Yes	21	300	300	0	700	85%	$ 1,600	$ 500	$ 2.29	$ 0.71
	Yes			80%	20%						
Affordable	Yes	22	5	4	1	700	95%	$ 1,250	$ 500	$ 1.79	$ 0.71
	Yes	23	25	20	5	700	95%	$ 1,300	$ 500	$ 1.86	$ 0.71
$ -	Yes	24	50	40	10	700	90%	$ 1,350	$ 500	$ 1.93	$ 0.71
	Yes	25	100	80	20	700	85%	$ 1,400	$ 500	$ 2.00	$ 0.71
	Yes	26	150	120	30	700	85%	$ 1,450	$ 500	$ 2.07	$ 0.71
	Yes	27	200	160	40	700	85%	$ 1,600	$ 500	$ 2.29	$ 0.71
	Yes	28	300	240	60	700	85%	$ 1,600	$ 500	$ 2.29	$ 0.71

Because affordable rents differ depending on a number of factors, such as the number of people in a household, unit size and whether utilities are included in the rental rate, the model uses a common estimate of $500 per unit per month ($.71 per net square foot). The affordable rental rate does not change throughout the model's various strategies or unit size options.

Common areas and circulation in the buildings increased as the unit count grew. From 5% in the five unit building to 15% in the three-hundred-unit building (roughly 37,000 gross square feet).

Figure 13: Development inputs by strategy and project

	Active?	Option	Units	Market	Affordable	$/Acre Land cost	$/Total Land prep	$/GSF Hard	Parking	% Land + Ha Soft	% Prior Dev fee	In Lieu	Permits / unit	DSCR	Am Period - '	Perm rate	U-Dis Rate	L-Dis Rate
	Yes																	
Market	Yes	1	5	5	0	$ 150,000	$ 10,000	$ 110.00	$ 32,500	18.0%	3.0%	$ -	$ 6,000	1.20	30	5.75%	7.00%	10.00%
	Yes	2	25	25	0	$ 312,500	$ 50,000	$ 170.00	$ 162,500	16.0%	3.0%	$ -	$ 6,000	1.20	30	5.75%	7.00%	10.00%
	Yes	3	50	50	0	$ 625,000	$ 100,000	$ 170.00	$ 325,000	15.0%	3.0%	$ -	$ 6,000	1.20	30	5.75%	7.00%	10.00%
	Yes	4	100	100	0	$ 1,250,000	$ 200,000	$ 185.00	$ 2,315,000	14.0%	2.5%	$ -	$ 6,500	1.20	30	5.75%	8.00%	12.00%
	Yes	5	150	150	0	$ 1,875,000	$ 300,000	$ 165.00	$ 3,565,000	14.0%	2.5%	$ -	$ 6,500	1.20	30	5.75%	8.00%	12.00%
	Yes	6	200	200	0	$ 1,666,667	$ 400,000	$ 210.00	$ 4,815,000	14.0%	2.5%	$ -	$ 7,000	1.20	30	5.75%	8.00%	12.00%
	Yes	7	300	300	0	$ 2,500,000	$ 600,000	$ 205.00	$ 7,315,000	14.0%	2.5%	$ -	$ 7,000	1.20	30	5.75%	8.00%	12.00%
	Yes			100%	0%													
Market $50k IL	Yes	8	5	5	0	$ 150,000	$ 10,000	$ 110.00	$ 32,500	18.0%	3.0%	$ 50,000	$ 6,000	1.20	30	5.75%	7.00%	10.00%
In lieu fee	Yes	9	25	25	0	$ 312,500	$ 50,000	$ 170.00	$ 162,500	16.0%	3.0%	$ 250,000	$ 6,000	1.20	30	5.75%	7.00%	10.00%
$ 50,000	Yes	10	50	50	0	$ 625,000	$ 100,000	$ 170.00	$ 325,000	15.0%	3.0%	$ 500,000	$ 6,000	1.20	30	5.75%	7.00%	10.00%
	Yes	11	100	100	0	$ 1,250,000	$ 200,000	$ 185.00	$ 2,315,000	14.0%	2.5%	$ 1,000,000	$ 6,500	1.20	30	5.75%	8.00%	12.00%
	Yes	12	150	150	0	$ 1,875,000	$ 300,000	$ 165.00	$ 3,565,000	14.0%	2.5%	$ 1,500,000	$ 6,500	1.20	30	5.75%	8.00%	12.00%
	Yes	13	200	200	0	$ 1,666,667	$ 400,000	$ 210.00	$ 4,815,000	14.0%	2.5%	$ 2,000,000	$ 7,000	1.20	30	5.75%	8.00%	12.00%
	Yes	14	300	300	0	$ 2,500,000	$ 600,000	$ 205.00	$ 7,315,000	14.0%	2.5%	$ 3,000,000	$ 7,000	1.20	30	5.75%	8.00%	12.00%
	Yes			100%	0%													
Market $100k IL	Yes	15	5	5	0	$ 150,000	$ 10,000	$ 110.00	$ 32,500	18.0%	3.0%	$ 100,000	$ 6,000	1.20	30	5.75%	7.00%	10.00%
In lieu fee	Yes	16	25	25	0	$ 312,500	$ 50,000	$ 170.00	$ 162,500	16.0%	3.0%	$ 500,000	$ 6,000	1.20	30	5.75%	7.00%	10.00%
$ 100,000	Yes	17	50	50	0	$ 625,000	$ 100,000	$ 170.00	$ 325,000	15.0%	3.0%	$ 1,000,000	$ 6,000	1.20	30	5.75%	7.00%	10.00%
	Yes	18	100	100	0	$ 1,250,000	$ 200,000	$ 185.00	$ 2,315,000	14.0%	2.5%	$ 2,000,000	$ 6,500	1.20	30	5.75%	8.00%	12.00%
	Yes	19	150	150	0	$ 1,875,000	$ 300,000	$ 165.00	$ 3,565,000	14.0%	2.5%	$ 3,000,000	$ 6,500	1.20	30	5.75%	8.00%	12.00%
	Yes	20	200	200	0	$ 1,666,667	$ 400,000	$ 210.00	$ 4,815,000	14.0%	2.5%	$ 4,000,000	$ 7,000	1.20	30	5.75%	8.00%	12.00%
	Yes	21	300	300	0	$ 2,500,000	$ 600,000	$ 205.00	$ 7,315,000	14.0%	2.5%	$ 6,000,000	$ 7,000	1.20	30	5.75%	8.00%	12.00%
	Yes			80%	20%													
Affordable	Yes	22	5	4	1	$ 150,000	$ 10,000	$ 110.00	$ 32,500	18.0%	3.0%	$ -	$ 6,000	1.20	30	5.75%	6.00%	9.00%
	Yes	23	25	20	5	$ 312,500	$ 50,000	$ 170.00	$ 162,500	16.0%	3.0%	$ -	$ 6,000	1.20	30	5.75%	6.00%	9.00%
$ -	Yes	24	50	40	10	$ 625,000	$ 100,000	$ 170.00	$ 325,000	15.0%	3.0%	$ -	$ 6,000	1.20	30	5.75%	6.00%	9.00%
	Yes	25	100	80	20	$ 1,250,000	$ 200,000	$ 185.00	$ 2,315,000	14.0%	2.5%	$ -	$ 6,500	1.20	30	5.75%	7.00%	11.00%
	Yes	26	150	120	30	$ 1,875,000	$ 300,000	$ 165.00	$ 3,565,000	14.0%	2.5%	$ -	$ 6,500	1.20	30	5.75%	7.00%	11.00%
	Yes	27	200	160	40	$ 1,666,667	$ 400,000	$ 210.00	$ 4,815,000	14.0%	2.5%	$ -	$ 7,000	1.20	30	5.75%	7.00%	11.00%
	Yes	28	300	240	60	$ 2,500,000	$ 600,000	$ 205.00	$ 7,315,000	14.0%	2.5%	$ -	$ 7,000	1.20	30	5.75%	7.00%	11.00%

Soft costs decline as a percentage of total project costs, from 18% down to 14% in the highest unit count options. Financing costs are separately calculated and are not included in these figures.

Permits are set at $6000 per unit until projects reached 200 units, at which point the model assumes that permit fees would rise to $7000 per unit, reflecting higher city-issued fees for the larger projects.

In lieu fees for options that include such are set at $50,000 or $100,000 per affordable unit. The model's default affordable housing mix is set at 80% market rate and 20% affordable units. The two strategy options that include in-lieu fees are designed to take the base market rate strategy, apply the default affordable rate unit calculations to each project size, but then paying the specified in-lieu fee rather than building those units.

The development period interest rate is set at 7.5% on an interest only loan for construction, that is then taken out by a permanent loan at 30 years and 5.75% with a loan to value (LTV) maximum of 70% or Debt Service Coverage Ratio (DSCR) of 1.2. In reality, commercial projects like those modeled here would likely have shorter term debt (often a ten-year loan term with a longer amortization period), but the thirty year term approximates those continuous refinancing events.

Lease up activities are constrained to a maximum of twelve months following an eighteen-month development period. Stabilized operations begin the month following the end of lease up and operating expenses are held to 35% of income. Sales values are determined by the Net Operating Income (NOI) of the year after the notional sale's date (in line with financial theory that an investor is buying the capitalized value of the next year's cashflow).

The model separates out costs into those that are due to financing and all other costs. The non-financing costs reflect the costs of developing the property using only the developer's own capital (an all equity investment). The model allocates equity against these costs and brings unfunded costs into an area where loan points and interest can be added to the total unfunded balance. The all equity cashflow logic in the model takes the NOI, adds to them the all equity-funded investment cashflows and additional capital expenditure for replacement reserves, then adds the final sales value. The total resulting cashflows are the unleveraged cashflows for the project. For the leveraged cashflows, the unleveraged cashflows are added to the loan points and interest costs and / or debt payments.

Date specific (and highly accurate) Internal Rate of Return (IRR) and Net Present Value (NPV) calculations are run against each cashflow stream (unleveraged and leveraged) to show how project's financial returns. Discount rates for the unleveraged cashflows are set at 7.0%, which is not at the low end of most market measures, and at 12% for the riskier, leveraged cashflows (riskier because debt obligations add complexity and legal challenges to the project if debt payments are not made). Like the unleveraged cashflows, the leveraged cashflow discount rate is not particularly high by market standards. The net present value discount rate was set at 12%, indicating a 12% profit target for the project.

Model results without incentives

The model's results are best read from the left-hand column down and then across when comparing the different strategies or from left to right when evaluating a particular unit count within a strategy.

Using unleveraged cashflows as an example, the market strategy shows nominal profits of between $634k for a five-unit building and $26M for a three-hundred-unit building. As in-lieu fees are added for affordable units that were not built onsite, those same nominal profits drop to a range of $566k to $23M for a $50k per affordable unit in lieu fee, or $516k to $20M for a $100k in lieu fee. Building the affordable units onsite reduces nominal unleveraged profit to $345k to $5M for the range of unit counts.

Figure 14: Development returns by strategy and project

	Active?	Option	Units	U-CFs	L-CFs	U-XIRR	U-NPV	L-XIRR	L-NPV	Dev$/unit	L-NPV$/unit
	Yes										
Market	Yes	1	5	$634,652	$374,929	10.94%	$168,008	18.43%	$115,239	$160,686	$23,048
	Yes	2	25	$2,386,186	$986,751	7.18%	$44,974	7.71%	($196,897)	$199,616	($7,876)
	Yes	3	50	$4,858,289	$1,960,348	7.04%	$19,987	7.34%	($478,065)	$207,468	($9,561)
	Yes	4	100	$6,605,269	$347,026	4.22%	($4,233,781)	0.53%	($4,713,017)	$251,562	($47,130)
	Yes	5	150	$14,303,171	$4,933,432	6.32%	($2,696,627)	5.52%	($3,633,094)	$230,500	($24,221)
	Yes	6	200	$16,510,708	$2,509,260	4.75%	($8,070,229)	1.75%	($9,238,367)	$275,914	($46,192)
	Yes	7	300	$26,181,343	$5,289,948	5.08%	($10,764,237)	2.51%	($12,583,349)	$270,827	($41,944)
	Yes										
Market $50k IL	Yes	8	5	$566,315	$303,700	9.47%	$108,931	14.08%	$59,200	$171,468	$11,840
In lieu fee	Yes	9	25	$2,136,186	$717,173	6.24%	($193,456)	5.30%	($428,302)	$210,399	($17,132)
$ 50,000	Yes	10	50	$4,358,289	$1,421,193	6.13%	($456,873)	5.04%	($940,875)	$218,251	($18,817)
	Yes	11	100	$5,605,269	($731,287)	3.49%	($5,181,371)	-1.07%	($5,613,346)	$262,344	($56,133)
	Yes	12	150	$12,803,171	$3,315,965	5.51%	($4,118,013)	3.54%	($4,983,587)	$241,282	($33,224)
	Yes	13	200	$14,510,708	$352,626	4.08%	($9,965,409)	0.24%	($11,039,026)	$286,697	($55,195)
	Yes	14	300	$23,181,343	$2,054,998	4.39%	($13,607,008)	0.94%	($15,284,337)	$281,610	($50,948)
	Yes										
Market $100k IL	Yes	15	5	$516,315	$249,786	8.34%	$61,245	10.83%	$12,920	$182,251	$2,584
In lieu fee	Yes	16	25	$1,886,186	$447,605	5.35%	($431,886)	3.14%	($659,704)	$221,181	($26,388)
$ 100,000	Yes	17	50	$3,858,289	$882,057	5.28%	($933,733)	2.98%	($1,403,679)	$229,033	($28,074)
	Yes	18	100	$4,605,269	($1,809,560)	2.80%	($6,128,961)	-2.55%	($6,513,663)	$273,127	($65,137)
	Yes	19	150	$11,303,171	$1,698,556	4.74%	($5,539,398)	1.73%	($6,334,063)	$252,065	($42,227)
	Yes	20	200	$12,510,708	($1,803,920)	3.44%	($11,860,589)	-1.16%	($12,839,661)	$297,479	($64,198)
	Yes	21	300	$20,181,343	($1,179,821)	3.74%	($16,449,778)	-0.52%	($17,985,289)	$292,392	($59,951)
	Yes										
Affordable	Yes	22	5	$345,961	$127,198	6.60%	$24,399	6.21%	($39,853)	$160,686	($7,971)
	Yes	23	25	$968,642	($224,051)	3.19%	($660,648)	-1.73%	($974,902)	$199,616	($38,996)
$ -	Yes	24	50	$1,963,922	($506,420)	3.12%	($1,406,099)	-1.88%	($2,055,811)	$207,468	($41,116)
	Yes	25	100	$621,166	($4,753,655)	0.43%	($7,044,689)	0.00%	($7,827,557)	$251,562	($78,276)
	Yes	26	150	$5,033,963	($2,968,297)	2.44%	($7,026,224)	-3.30%	($8,406,447)	$230,499	($56,043)
	Yes	27	200	$2,979,547	($9,029,236)	0.94%	($14,418,812)	0.00%	($16,259,629)	$275,914	($81,298)
	Yes	28	300	$5,884,602	($12,017,796)	1.25%	($20,278,437)	-5.68%	($23,097,610)	$270,827	($76,992)

Once debt is considered, those nominal profit levels fall even more. The market-only strategy delivers $374k to $5M in after debt nominal profit, falling to $303k to $2M for the range of units with a $50k in lieu fee. With that fee doubled to $100k, returns are only nominally positive up to the fifty-unit level, with returns of $249k for a five-unit building, $882k for a fifty-unit building, -$1.8M for a one hundred unit building before becoming positive again (remember that construction costs are not perfectly linear, creating breakpoints with unexpected financial results), before ending the range with -$1.2M for the three-hundred-unit option. The affordable housing strategy losses money for all but the very first option (the five-unit building).

The returns just discussed were all nominal, that is, they did not account for the time value of money. Just as you would value $1M more now than you would in fifty years, so would investors. Inflation, risk premiums and debt costs also add real costs to that innate preference. For those reasons, investor discount future returns by a number that reflects the costs of the above factors. As noted previously, the model uses 7% to discount unleveraged cashflows and 12% for leveraged cashflows.

Under the discounted cashflows approach (U-NPV = unleveraged net present value, L-NPV = leveraged net present value), essentially none of the project evaluated here can generate sufficient profit to be financially feasible.

This result may be counter-intuitive as new residential construction is ongoing across Bloomington, but it makes sense in the context of high (and rising) construction costs and a relatively low ceiling on rental rates. Actual developers would spend a large amount of time refining the design and construction materials to reduce costs, negotiating with the city for regulatory exemptions to lower costs for parking (as a common example), securing land at lower costs than are assumed in this model or negotiating better debt terms. In those cases, profits are generated through a multi-pronged approach of incremental savings or revenue enhancements (to say nothing of taking risks by targeting rental rates that are higher than the current market rates to justify the costs of development).

To understand how far from achieving the target profit rates each strategy and unit count is, just look at the L-NPV column. The negative numbers shown there indicate the exact amount that the project must gain to achieve its profit target. As an example, for the 300 unit building with a $100k per affordable unit in-lieu fee, the current negative net present value is -$17.9M. To hit the 12% profit return threshold, the project must gain that much value from either reducing construction costs by an equal amount, adding revenue such that the total discounted value of the added value is equal to the negative NPV or some combination of the two approaches. A developer may reduce construction costs by $2M through additional value engineering, request a TIF of $10M from the city or county and raise rents across the market units to close the hole.

Incentives analysis

As an extension the financial analysis exercise, our team was instructed by the City of Bloomington to work with an actual project from a multi-family developer active in the city to test how a project's financials would change with potential incentives.

To protect the developer's privacy, we are modifying some aspects of his project's details and only discussing high level final returns with and without the incentives.

Our analysis included four incentive types:

1) Parking reductions: reducing the requirements for onsite parking stalls

2) Density bonuses: adding market rate units when requiring affordable units in a project

3) Tax increment financings (TIFs): capturing the future growth in a project's tax revenues to offset development costs

4) Fee deferrals: time shifting when development fees for permitting, parks and other requirements are due

The parking reduction incentive helps developers by reducing the requirement to have parking stalls onsite based on the development plan and activity onsite. Residential units, for example, often have a requirement for at least one parking stall per residential unit (with per bedroom adjustments being common). Reducing the parking requirements directly impacts how a development site can be used spatially as well as reducing the costs of parking, which averages roughly $35,000 for an underground stall, $25,00 above ground and $6,500 on grade. Not all parking reduction is created equal, however. Having too few parking stalls onsite with no alternatives nearby may make a project unmarketable and hence unprofitable because potential tenants may want some amount of parking onsite. This incentive then is important but often loses its benefit after an approximately 30% reduction in parking requirements.

Density bonuses directly impact the revenue generating potential of a project. Typically, a jurisdiction will allow some additional percentage of the originally allowed market rate units to be added to the market rate total. As an example, assume that a developer can build 100 units by zoning regulations with 20% being affordable (80 market rate units and 20 affordable units). A 30% density bonus would grant the developer an additional 24 market rate units (104 market rate and 20 affordable units). This incentive is quite powerful when the market can absorb the additional units at full market rates. In declining markets or specific locations where demand may not be very strong, additional market units may make the project harder to finance or lease-up. Like parking reductions, general economic conditions will partially determine the effectiveness and attractiveness of this incentive.

Tax increment financing (TIF) often takes the form of a payment to a developer with the periodic costs of that debt covered by the increase in the value of the land and other tax basis of the property. As an example, assume a parcel of land generates $100 in property taxes now (ignore other potential taxes for the moment). Under a proposed property development plan, the property would generate $250 in land taxes. The extra $150 in property taxes each year can be used to service the debt placed on the property. While there are variations on this approach, the conceptual logic tends to be similar: capture the incremental value creation as the mechanism to repay debt.

Developers often ask for a TIF because of a regulatory burden that has been placed on them for a public purpose. As shown in the financial analysis earlier, the ability to offset a portion of administratively required parking or affordable housing costs using a TIF goes very far towards getting a project into the black (financially speaking). For this reason, there is little downside for most developers (outside of debt service coverage risk if the project bears any direct repayment liability). A municipality on the other hand must balance its ability to borrow through General Obligation (GO) bonds or other methods as well as the impact on its credit rating of issuing additional debt.

Fee deferrals cover two distinct options. The first option would be simply time shifting when fees are due, but requiring all fees to be paid (though the city has the option of waiving fees as well). For this option, the logic used was that if a project had either 1) 20% or more of its units as affordable to 60% - 80% AMI, or 2) more than 10% of units were affordable to those earning 30% AMI or below, then most fees associated with development (permits, development and parks dedication – water tap fees were excluded from the formula) could be paid twelve months after the Certificate of Occupancy (CofO). The reasoning behind this timing is that developers often refinance their property from the construction loan into a permanent loan once stabilized operations have been reached (at the end of the lease up period). Allowing developers up to twelve months after the CofO to pay their development fees reduces their capital outlay upfront and allows the fees to be paid out of the refinancing proceeds (which are often higher than what is owed on the construction loan). The second option is that the fees themselves can shift from a development cost to an operating one by making the fee payable as an interest-bearing note over a fixed period. The advantage for developers of this approach is that under a long-enough financing period, the additional cost burden on operations may be spread over the operating units as an operating cost. The disadvantage for developers of this approach is that unless the financing period is longer than ten years, the large fees associated with development will likely reduce NOI, which in turn reduces the total that can be borrowed as a permanent loan. In addition, the city's finances would be impacted for a longer time period, even with a quasi-market rate of interest (6% in the model runs that we performed). The deferred fee option simply provides an additional layer of flexibility to developers to make their numbers work.

Incentive modeling

We used the developer's model for a nearly 200 unit project as a base on which to graft the incentives in relevant areas (such as unit counts by selected strategy). Three strategies were used: one with 20% of the units at 60% AMI, one at all market rate rentals and one at 20% of the units at 30% AMI.

The model evaluated each of these strategies to determine their financial returns without any incentives and using the developer's estimates for equity and debt, rents and construction costs.

Figure 15: Development returns without incentives for an example project

COMPARATIVE CHART OF FINDINGS
10 Year hold

	20% at 60% AMI	All Market	20% at 30% AMI
Unleveraged			
IRR	4.84%	5.58%	4.37%
NPV	$ (24,343,905)	$ (21,469,781)	$ (26,128,441)
Leveraged			
IRR	5.95%	8.28%	4.57%
NPV	$ (11,203,765)	$ (8,084,769)	$ (13,140,342)

Financial returns for those scenarios are shown to the right and conform to intuitive expectations as well as the general returns guidance from the earlier modeling exercise. In these results the all market returns were 5.58% on an unleveraged basis and 8.28% once debt was included. With 20% of the units at 60% AMI, returns dropped to 4.84% (unleveraged) and 5.95% (leveraged). Reducing the AMI levels even more to 30% drops returns to 4.37% and 4.57% (unleveraged and leveraged, respectively). The declining return to debt shows that the project's debt costs are becoming a liability given the rent levels. As total rental income drops, the total amount that can be borrowed drops (because one loan sizing test verifies how much "extra" NOI exists over the required debt payment). If the project costs remain the same, then reducing the amount that can be borrowed means that the required equity level rises. All things being equal, the more equity in the project, the more profit it must generate to generate identical IRRs.

Applying the incentives one at a time (not cumulatively until the final model run) to the 20% of units at 30% AMI strategy, the results show that a 30% parking reduction provides a slight lift to the returns (unleveraged returns rise from 4.37% to 4.73%). The impact here may be even higher if the developer can further shift some of the remaining parking stall from underground to above ground. The parking reduction did not use the city's capital or borrowing capacity.

Figure 16: Development returns with selective incentives applied

COMPARATIVE CHART OF FINDINGS
10 Year hold

	No city money	No city money *+42 market units*	City money	Deferred fees to city **Permit, parks & dev*	
	20% at 30% AMI				
	With 30% parking reduction	With 30% density bonus	With TIF	With deferred development fees*	With all incentives shown
Unleveraged					
IRR	4.73%	5.69%	6.25%	4.27%	7.70%
NPV	$ (23,904,288)	$ (21,015,993)	$ (18,435,393)	$ (26,595,600)	$ (11,565,952)
Leveraged					
IRR	5.60%	8.66%	9.45%	4.31%	13.77%
NPV	$ (11,257,781)	$ (7,606,651)	$ (7,976,329)	$ (14,248,669)	$ (1,668,405)

Using a 30% density bonus to the project provided a very strong increase in the returns, from 4.37% unleveraged to 5.69%, and even higher with debt, from 4.57% to 8.66%. This powerful incentive mechanism did not use the city's capital or borrowing capacity. The density bonus does require the ability for the additional units to be financed and absorbed by the market, however, to be effective.

The TIF incentive provides the highest direct lift to the project's returns. In this project, the TIF was applied not as a one-time payment into the project but as a series of payments over a specified period of time to support NOI. Returns rose from the baseline unleveraged return of 4.37% to 6.25%, and with debt returns jumped from 4.57% to 9.45%. This option does rely on the city's ability to make the financing work (though the financing package is backstopped by the property's tax basis rise).

Deferred development fees in this example converted $675,000 in fees into a six year note at six percent annual interest. The impact on NOI was worse than if the fees had been paid in advance (though potentially also time shifted until the permanent loan was put in place). Additional analysis on acceptable financing periods may yet make this option attractive to developers. The impact to the city's finances would be immediate for projects that qualify in that monies due to the city would not be paid right away, but over time. With proper planning, this impact too may be mitigated.

Collectively, the incentives lifted the developer's financial returns from 4.37% to 7.7% on an unleveraged basis and from 4.57% to 13.77% on a leveraged basis – and at that number the returns begin to approach acceptable market rates (though both debt and equity financing for such a project may yet be a challenge, even with the incentives).

Developers have told us directly that expedited approvals may be among the most powerful incentives that the city could offer them and would not cost the city anything directly. The model iterations that we ran did not include any impact from such an incentive, but our understanding of that incentive's benefit is primarily that it lets the developer keep capital at risk for a shorter period and take a project to market faster – which reduces the risk of a project launching into a soft market.

Relevance to the IHO

For the purposes of analyzing the IHO, the model's financial returns indicate a number of issues that ought to be considered when setting the in-lieu fees and any affordable unit percentage.

The first point is that although returns for smaller projects appear to be less impacted by the in-lieu fees and affordable requirements, those returns are really predicated on much lower construction costs than the larger buildings use. Developers of small unit buildings are building economy-level residential dwellings of often just one or two stories. They tend to operate with a small team and low cost base. Adding administrative and compliance burdens to their operations may push many (if not most) out of multi-family construction and into single family, which obviously impacts total multi-family unit production of small unit count buildings.

The second point is that profits are not guaranteed in residential development, particularly as unit counts rise. Although the returns to scale do exist when economic factors work in the developer's favor, such as when rents are rising faster than construction costs, current economic conditions appear to be closer to a tipping point: costs for construction labor and materials appear to be rising faster than rents (which are in turn related to the underlying growth in area wages). With interest rate hikes occurring and more likely over the coming two or three quarters, the underlying cost basis for new residential multi-family projects will increase as well.

The third point is that the in-lieu fees by themselves are not typically sufficient to make a project unprofitable and will likely be offset over time through lower land values, slightly higher market rate rents and slightly lower developer profits. The affordable unit percentages appear to be more financially burdensome than the unit requirements.

The fourth point is that incentives can offset the costs of the policy requirements and may be considered a useful mechanism of achieving affordable housing public policy goals. But for the creation of new rental units, affordable housing tends to be those units that are "naturally occurring," that is, older or in less desirable locations. The stock of housing that fits the naturally occurring criteria increases generally only as properties age. The city may consider that adding additional affordable units is worth the cost as it provides economic competitiveness beyond the cost of the incentives. Consider that a city with employees close to their employment will travel fewer road miles (reducing infrastructure cost and traffic congestion), spend their incomes within the city's limits, stimulating addition retail opportunities, and increasing the city's prestige as a place that is home for residents across all income levels (a form of brand equity).

Since not all incentives cost the city capital or borrowing capacity, use market demand for additional market rate units and developer preferences for speed of permitting to their fullest extent before negotiating for city-funded incentives.

Top-down analysis

One way of evaluating the Bloomington market is from the top-down, that is, estimating the number of households that an IHO would potentially apply to, then creating an estimate of annual needs for units within this group. Once an annual unit estimate can be made, an average development cost per unit can be applied to understand the total potential cost of providing those units.

Since, however, developers typically only invest approximately 35% of the total development cost of a project, the total amount estimated to be needed in a given year to provide affordable housing units can be multiplied by this percentage to reflect the non-debt costs that would be spent on their provision. With this number in mind, the City of Bloomington can consider a range of options to provide some or all of those funds (a full discussion of this approach is beyond the scope of this brief analysis, but we can speculate on potential options here).

First, we begin with an analysis of the estimated population that would be under housing stress (definitionally spending more than 30% of their income on housing costs) and to whom affordable housing units would be targeted.

Figure 17: Top-down estimate of annual affordable housing unit need

Households likely to be affected by the IHO

	Total	% in housing stress	Adjusted	% who move in a year	Inc units needed annually
Less than $10,000	1,312	100%	1,312	5%	66
$10,000 to $14,999	1,094	95%	1,039	5%	52
$15,000 to $24,999	2,078	90%	1,870	5%	94
$25,000 to $34,999	3,099	85%	2,634	5%	132
Total	**7,583**	90%	**6,856**		**344**

New development cost / unit	$	300,000
Annual household unit need		344
Total affordable housing unit cost	$	103,200,000
Adjusted for equity required (35% of total)	$	36,120,000

The American Community Survey figures for the City of Bloomington in 2017 show 7,583 households with under $35,000 in annual earnings. The earlier analysis of housing stress showed 88% of renter households under $20,000 / year were in housing stress, dropping only slightly to 85% for households between $20,000 and $34,999 / year. Since the household income data and housing stress data have different income measurements (the scales are more finely cut in the income numbers), we used conservative estimates of households in housing stress for the income bands between $0 and $24,999. Under gradually falling assumptions that begin with an assumption that everyone living on less than $1,000 per month is likely in housing stress and then reducing the percentage in housing stress by 5% for each income band until arriving at the 85% figure that was shown in the ACS renter housing stress data. Now, not all households in these annual income categories are renters. Some are elderly homeowners, others may be temporarily unemployed or under-reporting income. At the same time, there are households in housing stress at incomes above the $34,999 / year level.

By constraining the analysis to the lower income levels and ignoring a bit of the nuance about whether every single household within these bands is in housing stress and none above the cutoff are, we can more easily get to a defensible figure of potential households that may need affordable housing units.

This defensible figure is approximately 6,856 and could be refined with additional data, but likely reflects a fair estimate of the average number of households in Bloomington that may benefit from affordable housing units. If we assume that 5% of these households in each income band move (change housing units within Bloomington) within a given year, then the lower income households in the city would need approximately 344 affordable units in a year to absorb those movers.

If each new unit costs approximately $300,000 to build, then the 344 affordable housing units reflect annual costs in 2018 dollars of $103M, of which 35% ($36M) would be the actual investor’s share (the rest coming from bank loans). This $36M is the portion that the City of Bloomington could use as an internal benchmark to estimate how much it would be willing to fund from whatever sources it has available.

As an example, if Bloomington had a goal of offsetting 20% of the total estimated equity need for affordable housing units and (much like tax credit applications), asked developers to submit applications in a competitive process for the available funds, it would need $7.2M in funding.

The funding needed for the $7.2M could come from a range of sources, whether IHO-related funds, additional permit fees, special assessments or TIF districts.

VI - Results and Discussion

Results of our analysis show….

Focus	Functional Area	Implications for Bloomington
1. Inclusionary Housing Ordinance	Overall	▪ Control period of 30 years is commendable, but consider ensuring that control period resets to "0 year" when for-sale property changes hands. This will keep the net stock of units growing. ▪ Under Applicability, "New Construction – where the threshold is 5 units or more, consider the impact on small developers. The low cut-off will probably have only a minimal impact on the total number of affordable units and would add to administrative burden. ▪ Forecast the number of units needed by market characteristics and by income segment and align BIHO in a nuanced way to incorporate needs of different AMI segments and cohorts within the jurisdiction. ▪ Review administration burden of BIHO - 2-3 FTE's appears standard for mature programs. ▪ Include more direct language for monitoring and evaluation of this ordinance in § 9.22. ▪ § 9.23 - Detail who will do income verification and eligibility at outset and then annually? ▪ Be prepared to make several revisions or amendments soon after announcing and first round of projects are submitted for approvals. ▪ Add a definitions section that covers key terms and requirements. ▪ Consider separate authorization for Housing Trust Fund – need more detail and easier to manage and amend.
	§ 9.08, 9.09 9.11 Incentives	▪ Assess if providing a "menu of alternative compliance options" works better for unit production goals, e.g., converting market-rate units, extending the affordability period on existing affordable units, in-lieu fees, transfer of existing units to a nonprofit developers, bank and transfer more than the minimum number of units at one site and count those against another site), alternative housing (e.g., special needs, single-room occupancy, shelters), and land dedication to non-profits.

		▪ Under Density bonuses, consider if the height bonus is truly important to developers and if yes, determine how much bonus is ideal. ▪ Under Development Fee Waivers – examine if these can be graduated to more relevant to the target area. ▪ Assess if housing policy or IHO can refer to new sources of "land" – e.g., single level ageing strip malls, parking lots, gas stations that can be repurposed and incentivized for development and affordable units. ▪ Same with Adaptive Housing – going from office to residential has merit in tight markets. ▪ Due to complex nature of incentives and bonuses, offer preliminary review for developers pro-forma to confirm key assumptions and requirements.
	§ 9.13 In-lieu payments	▪ If unit production focused, especially in the short-term, then "in lieu" payments may be less efficient. Aim to make unit production more attractive than paying in-lieu payments. ▪ Consider offering fulfillment via partial in-lieu payment and partial unit production. ▪ Incentivize priority locations and housing types. ▪ Illustrate specifically how and where In-lieu payments will be utilized.
2. Impact Fee	Nexus Impact Fee Calculation	▪ Consider expressing as a % of gross square footage in addition to per unit. This can allow for finer calibration of fee structure and perhaps wider acceptability among developers.
3. Financial Feasibility	Small developer exclusion	▪ Small developers are less able to absorb additional costs and compliance pressures. Even with profitable small scale development, IHO burdens may not justify multi-family development activities.
	Project profitability	▪ In the current part of the economic cycle in Bloomington's situation of little available land, rising factor costs and few properties pushing rental rates higher, multi-family developer profits are generated largely by "fine-tuning" projects through cost cutting and selective rental increases. ▪ Project profits are not inherent for larger unit counts without the ability to materially shift costs lower and rents higher (or offset / defer those costs that cannot be shifted).

		▪ Model results show that market rate returns are not possible under the standard cost and rental scenarios we used (which were in turn based on RS Means and industry averages). ▪ Since multi-family development is ongoing, the best estimate about most project's profitability is that they have created the profit in their projects through advantageous land purchases, value-engineering construction, subsidy or rental increases – or all of the above.
	In-lieu fees and affordable requirements	▪ In-lieu fees alone are typically not sufficient to push a project from profitable to unprofitable. ▪ The requirement for affordable units creates more downward pressure on profits than do in-lieu fees.
	Incentives	▪ Incentives can be varied in type and do not necessarily cost the city anything, such as reducing regulations on parking requirements or maximum unit densities. ▪ Permitting speed is often cited by developers as a key incentive to improve their time to market. ▪ In terms of pure power, the density bonus and TIF each generate substantial lift to a project to which they are applied (assuming that the additional market rate units can be financed and absorbed).
	Top-down analysis	▪ Perhaps 344 affordable units per year are needed in the city to provide new affordable housing units to the households in income bands under $35k/year. ▪ These units reflect $103M in total development costs, with the equity (investor) portion being $36M. ▪ Under a 20% example target of city funds for affordable housing support, the city would need $7.2M per year for its commitments. ▪ The funding sources for the affordable housing commitments can come from a range of sources, currently TBD (but possibly, TIF districts, special assessments and fees).

VII - Sources

US Census Bureau – American Communities Survey Data, most recent year and going back five years (most often 2012-2017 data)

Bureau of Labor Statistics most recent year's data for employment

City of Bloomington (for project guidance and permit data)

Maxfield Consulting, "Comprehensive Housing Needs Assessment for the City of Bloomington", May 2018 Revision

Daedalus Advisory Services (for development industry guidance)

Montgomery County, MD (for IHO experiences)

Evanston, IL (for IHO experiences)

Boulder, CO (for IHO experiences)

Carlsbad, CA (for IHO experiences)

CHAPTER 9: HOUSING OPPORTUNITY AND PRESERVATION

Section

ARTICLE I: GENERAL PROVISIONS

§ 9.01 FINDINGS.

The City Council finds and declares the following:

(a) The health, safety and economic welfare of the present and future residents of Bloomington depends on the availability of a range of housing choices affordable to persons and families who comprise the city's workforce;

(b) Stable, safe, and affordable housing has measurable health benefits for persons and families;

(c) There is a need to encourage and assist in the development of affordable housing for families who are part of the workforce in Bloomington who fall within the extremely low to low income categories;

(d) The preservation of naturally occurring affordable housing (NOAH) is of concern to the City of Bloomington, as rental housing costs are increasing and creating tools and incentives for the redevelopment or substantial renovation of NOAH units, which may impact their relative affordability, is a city priority;

(e) The City of Bloomington's Comprehensive Plan Update Forward 2040, as required by the Metropolitan Council, establishes the portion of Bloomington's regional share of affordable housing under Housing goal #3 at least 842 new units of affordable housing and under Housing Strategy #2.1 states the city will encourage most new housing, especially high density housing, to be located near transit, amenities, services and employment; and

(f) The City Council of the City of Bloomington find it to be in the best interests of the residents of this community to develop initiatives to provide various affordable housing programs to aid in the development, financing and acquisition of affordable housing.

(Ord. 2019-16, passed 2-25-2019)

§ 9.02 PURPOSE.

The provisions of this chapter are further supported by robust quantitative and qualitative research and financial feasibility testing to estimate the new demand for below market rate housing generated by development and occupancy of new market rate housing and the need to maintain the city's existing naturally occurring affordable housing. The research indicates that development of 100 housing units priced at average market rates generates demand for an additional nine housing units for households at 60% of the area median income and below. This link between the creation of new market rate housing and the increased need for affordable housing forms the basis for establishment of the opportunity housing requirement and associated in lieu of payment as described in § 9.09.

To further the financial feasibility of creating opportunity housing and to understand the requirements impact on developing projects, the Community Development Department will develop financial modeling guidelines approved by the City Council to assist developers in determining the types of tools applicable and useful for their project.

Additionally, as of the adoption of this section, the city has approximately 3,500 units of naturally occurring affordable housing, of which the preservation and related substantial rehabilitation of the same is critical to meeting the range of housing needs in our community.

The purpose of this chapter is to:

(a) Maintain a balanced community that provides housing for households at all income levels;

(b) Ensure the opportunity for housing that is affordable to the employees of businesses that are located in or will be located in the city and the region;

(c) Implement the affordable housing goals, policies, and objectives contained in the City of Bloomington's 2040 Comprehensive Plan and City Council's Strategic Priorities;

(d) Ensure that this chapter supports the continued creation and preservation of all housing types at all income levels and does not constrain market rate housing creation and preservation within the city;

(e) Establish an affordable housing program that offers an array of tools, incentives and compliance options for promoting flexibility in development while at the same time is adaptable to changing economic circumstances and market conditions;

(f) Allow for the City Council to periodically review and revise these requirements for changing economic circumstances and to ensure responsiveness to local housing needs and real estate market conditions; and

(g) Allow a bundling of more than one of the city's affordable tools, options, and methods toward a single development in an effort to provide the greatest chance of reaching the extremely low and very low income populations in need of affordable housing.

(Ord. 2019-16, passed 2-25-2019)

§ 9.03 AUTHORITY.

(a) M.S. § 462.358, subd. 1a, provides that a municipality may adopt and maintain in effect any law, ordinance, rule, or other measure that is adopted for the purpose of increasing the supply of affordable housing using land use mechanisms such as affordable housing ordinances, notwithstanding any other provisions of the law;

(b) M.S. § 462.358, subd. 11, provides that a municipality may enter into an agreement with an applicant that provides for a portion of housing units be affordable with established pricing and long-term affordability, notwithstanding any other provisions of the law; and

(c) M.S. § 473.859 requires municipal comprehensive plans to promote the creation of affordable housing for low and moderate income individuals and families.

(Ord. 2019-16, passed 2-25-2019)

§ 9.04 DEFINITIONS.

The following words and terms, when used in this chapter, have the following meanings unless the context indicates otherwise.

ACCESSORY DWELLING UNIT. See ***DWELLING, ACCESSORY***.

AFFORDABLE. Housing is ***AFFORDABLE*** when no more than 30% of the gross income of the household is required to pay for such housing and utility costs, fees and charges.

AFFORDABLE HOUSING BUILDING. A multiple-family dwelling, where at least 9% of the units are let for an amount that is affordable to households at or below 60% of AMI.

AFFORDABLE HOUSING DEVELOPER. A developer of housing whose portfolio serves households at or below 60% of AMI.

AFFORDABLE HOUSING PLAN. The plan submitted by a developer as part of a final site and building plan or final development plan approval pursuant to this chapter and Chapters 19 and 21.

AFFORDABLE HOUSING TRUST FUND. A trust fund established by the City Council for the purpose of collecting and disbursing funds for affordable housing programs in accordance with the requirements set forth in Article VIII.

AFFORDABLE RENTS. The rent and utilities for the affordable opportunity housing units will be based on HUD Fair Market Rents for the Metropolitan Statistical Area, which includes Bloomington, Minnesota.

AREA MEDIAN INCOME (AMI). The median household income as most recently determined by the United States Department of Housing and Urban Development for the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin Metropolitan Statistical Area, as adjusted for household size and number of bedrooms.

BLOOMINGTON HOUSING AND REDEVELOPMENT AUTHORITY (HRA). The Housing and Redevelopment Authority in and for the City of Bloomington that was created by an act of the Legislature of the State of Minnesota entitled “Municipal Housing and Redevelopment Act” approved and in force April 23, 1947 and by Special Law, Chapter 616, 1971 as amended by Special Law, Chapter 344, 1977, and that operates as the city’s public housing agency and whose purposes include administration of a Section 8 Housing Choice Voucher and other public housing programs.

DENSITY BONUS UNIT. A unit as a result of an increase in density permitted above the per acre limit established by the city code.

DESIGNATED TRANSIT AREA, TIER I. The area within a one-half mile walk of a transit stop or station for transit lines designated METRO by Metro Transit, measured from the closest general purpose door of the development to the nearest qualifying transit stop or station.

DESIGNATED TRANSIT AREA, TIER II. The area within a one-half mile walk of a transit stop or station that offers at least hourly service weekdays between 7:00 a.m. and 6:00 p.m., measured from the closest general purpose door of the development to the nearest qualifying transit stop or station.

DEVELOPMENT. A new or existing residential housing development at a site, including a mixed use development with a housing component, for which approvals have been or are being sought from the city.

DWELLING. One or more rooms designed for residential use by a single family that contain cooking, living, sanitary and sleeping facilities and that are physically separated from any other dwelling units in the same structure. Types of ***DWELLINGS*** are:

(A) ***DWELLING, SINGLE-FAMILY.*** A building designed or used for residential occupancy by one household with or without an approved accessory dwelling unit.

(B) ***DWELLING, ACCESSORY.*** A secondary dwelling unit, but not a manufactured home built on a permanent chassis, located on the same lot as a single-family dwelling unit, either physically attached to, within, or detached from the single-family dwelling unit. Accessory dwelling units must be developed in accordance with the standards set forth in § 21.302.03.

(C) ***DWELLING, TWO-FAMILY.*** A building designed or used for residential occupancy by two households in separate dwelling units fully separated by an unpierced wall extending from ground to roof or an unpierced ceiling and floor extending from exterior wall to exterior wall, except for a common stairwell exterior to both units, including both duplexes and double bungalows but not including accessory dwelling units.

(D) ***DWELLING, MULTIPLE-FAMILY.*** A building that includes three or more dwelling units.

ELIGIBLE HOUSEHOLD. A household with an annual income at less than or equal to the required AMI of an opportunity housing unit.

HOUSEHOLD. One person or more living alone or two or more persons sharing residency.

HOUSING TAX INCREMENT. Increments from a housing district that can be used to finance affordable housing projects or public improvements that are directly related to the project, as well as administrative expenses pursuant to state law.

INCOME. Household income adjusted for household size includes:

(A) ***EXTREMELY LOW INCOME.*** Household income at or below 30% of AMI.

(B) ***VERY LOW INCOME.*** Household income above 30% to at or below 50% of AMI.

(C) ***LOW INCOME.*** Household income above 50% to at or below 60% of AMI.

(D) ***MODERATE INCOME.*** Household income above 60% to at or below 115% of AMI.

INCOME LIMITS. The Department of Housing and Urban Development (HUD) sets income limits based on Median Family Income estimates and Fair Market Rent area definitions. Multifamily Tax Subsidy Projects (MTSP) Income Limits are used to determine qualification levels as well as set maximum rental rates for projects funded with tax credits authorized under section 42 of the Internal Revenue Code (the Code) and projects financed with tax exempt housing bonds issued to provide qualified residential rental development under section 142 of the Code.

MARKET RATE UNIT. A residential dwelling unit marketed for sale or lease above 115% of AMI.

NEXUS STUDY. An analysis that estimates new affordable housing demand generated in response to new market rate residential real estate development due to spending by new resident households.

NATURALLY OCCURRING AFFORDABLE HOUSING (NOAH). Existing owner-occupied or rental residential housing that is (a) affordable for at least 20% of the units to a household at or below 60% of AMI, (b) classified in the Class B and C real estate categories, and (c) was constructed between 1940 and 1990.

OPPORTUNITY HOUSING UNIT. A housing unit that has income and affordability restrictions pursuant to this chapter.

OPPORTUNITY FUND. Private investment vehicle, certified by the United States Department of Treasury, to aggregate and deploy capital for eligible uses on property in an opportunity zone.

OPPORTUNITY ZONE. A census tract in the City of Bloomington that has been designated by the United States Department of Treasury as eligible to receive private investments through opportunity funds.

OWNER. The individual or entity who holds title to a property as indicated in Hennepin County's property records.

PRIMARY RESIDENCE. The legal and verified permanent residence of a household.

DISTRICT PLAN. An adopted plan focused on one or more sites within an area that is intended to guide development, land use, transportation, preservation and other factors over a number of years or in several phases for a specific area or district.

RESIDENTIAL DEVELOPMENT. A residential or mixed use development, that includes any single family, duplex, townhouse, condominium dwelling, or other residential unit. ***RESIDENTIAL DEVELOPMENT*** includes the conversion of rental housing to condominiums or similar residential uses if applicable.

SITE. A lot, or group of adjacent lots intended, designated or approved to function as an integrated unit, that is proposed for development in accord with the provisions of this code and is in a single ownership or has multiple owners, all of whom execute a joint application for development.

SUBSTANTIAL REHABILITATION. When the cost of improvement of an affordable housing building exceeds 20% of the value of the property, excluding land, after improvements.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019; Ord. 2021-1, passed 3-8-2021; Ord. 2022-30, passed 6-6-2022; Ord. 2022-39, passed 8-8-2022; Ord. 2024-5, passed 3-18-2024)

§ 9.05 RESERVED.

§ 9.06 OPPORTUNITY HOUSING REQUIREMENT.

(a) *New residential construction, regardless of type of dwelling unit* For newly constructed, converted, or infill multi-family or townhome residential developments with 20 or more newly created units, at least 9% of the newly created units must be affordable to households at or below 60% of AMI. For newly constructed or infill single-family detached residential developments with 20 or more newly created units, at least 9% of the newly created units must be affordable to low income family households up to 115% AMI.

(b) *Calculating affordable units.* In determining the number of opportunity housing units required under this chapter, any decimal fraction less than 0.5 is rounded down to the nearest whole number and any decimal fraction of 0.5 or more is rounded up to the nearest whole number. For purposes of § 9.18 (density bonus), any additional units authorized and approved as a density bonus are not counted in determining the required number of affordable units.

(c) *Phasing.* Developments subject to this chapter include but are not limited to development that is undertaken in phases, stages, or otherwise developed in distinct parts.

(d) *Preservation and rehabilitation.* When a NOAH property with 20 or more units that receives some form of financial assistance from the city or HRA is transferred or is otherwise conveyed to a new owner or member of the prior owner or undergoes substantial rehabilitation, then at least 9% of the units must be preserved as affordable to households at or below 60% of AMI through approval of an affordable housing plan and execution of an affordable housing agreement. This section does not apply to a NOAH property of 19 or fewer units. "Financial assistance" only includes direct financial assistance from the city or HRA and does not include participation in the 4d property tax program or the Section 8 housing choice voucher program.

(e) *City assistance*. In consideration of the 9% requirement of this section, a developer or owner of a NOAH property preserving opportunity units in accordance with this chapter may utilize the options and tools as provided in this chapter.

(f) *Opportunity housing requirement.* The requirements of this section are generally referred to in this chapter as the "opportunity housing requirement."

(Ord. 2019-16, passed 2-25-2019; Ord. 2021-1, passed 3-8-2021)

ARTICLE II: DEVELOPER OPTIONS

§ 9.07 ON-SITE.

In consideration of and as a way of providing the developer with tools and flexibility to meet the requirements of this chapter, a developer may meet its opportunity housing requirement by the construction of all required opportunity housing units on the site of the proposed residential development.

(Ord. 2019-16, passed 2-25-2019)

§ 9.08 OFF-SITE.

(a) In consideration of and as a way of providing the developer with tools and flexibility to meet the requirements of this chapter, a developer may meet its opportunity housing requirement by the construction of opportunity housing units on a site different from the site of the residential development as follows:

(1) *For-sale residential development.* Off-site opportunity housing units equivalent to no less than 9% of the total dwelling units in the residential development must be made available for purchase at a housing cost to those households earning no more than 110% of the area median income.

(2) *Rental residential development.* Off-site rental opportunity housing units numbering no less than 9% of the total

dwelling units in the residential development must be made available for rent with a housing mix of extremely low, very low and up to 60% AMI households.

(3) *Additional requirements*. All opportunity housing units constructed off-site of the residential development must also comply with all of the following requirements:

(A) The site of the opportunity housing conforms to the city's affordable housing dispersion objective set forth in § 9.36;

(B) The site has a comprehensive plan designation authorizing residential uses and is zoned for residential development at a density to accommodate at least the number of required opportunity housing units within the residential development;

(C) The site can accommodate the development of the opportunity housing units;

(D) Environmental review for the site has been completed for the presence of hazardous materials and geological hazards, and all such hazards are or must be mitigated to the satisfaction of the city prior to acceptance of the site by the city;

(E) The construction schedule for the off-site opportunity housing units must be included in the affordable housing plan pursuant to § 9.32 and the opportunity housing agreement pursuant to §9.35; and

(F) Construction of the off-site opportunity housing units must be completed prior to or concurrently with the market rate residential development pursuant to § 9.36(e).

(4) *Location.* Where the market rate residential development is located in a district plan area, the following will apply:

(A) The off-site opportunity housing units for the residential development must be located within the same district plan area.

(B) If at the time of submission of the affordable housing plan pursuant to §9.32, the developer has petitioned and provided credible documentation in writing to the Community Development Department that there is insufficient available land within the district area plan to construct the off-site opportunity housing units, the opportunity housing units may be constructed upon a site approved by the city in another area in the city.

(5) *Incentives.* In cases where opportunity housing units are constructed off site, the tools and incentives described in Article III apply only to the site hosting the opportunity housing units.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019)

§ 9.09 PAYMENT IN LIEU OF AFFORDABLE UNITS.

(a) Based on research conducted in support of this section and pursuant to §§9.01 through 9.03, a verified payment in lieu rate is hereby established as set forth in City Code Appendix A per square foot and is calculated based on the leasable market rate unit square footage of the interior unit only, and not the total building square footage. For sale unit in lieu payment is calculated based upon the livable square footage only.

(b) The opportunity housing requirement in §9.06 may be satisfied by making a payment to the Affordable Housing Trust Fund established by this chapter in lieu of constructing the opportunity housing units, provided that such payment is received by the city prior to the issuance of the building permit for the project.

(c) If a developer chooses not to construct a portion of the required opportunity housing units mid project, the developer may make a payment in lieu of developing the remaining units that is proportional to the requirement of this section, provided that such payment is received by the city prior to the issuance of the building permit for the project.

(d) If a developer chooses the in lieu payment, the fee in-lieu must be paid to the Affordable Housing Trust Fund, but the developer may assign the in lieu payment to another housing development when it is:

(1) To a development by the same developer that will include at least the sum amount of units that is no less than 9% of the total dwelling units in the developer's original housing development in addition to 11% of the total dwelling units in the proposed development, affordable to households at or below 60% AMI provided the development receives city final development plan approval within 24 months of issuance of building permit for the market rate development;

(2) To a development by different developer that will include at least the sum amount of units that is no less than 9% of the total dwelling units in the developer's original housing development in addition to 11% of the total dwelling units in the proposed development, affordable to households at or below 60% of AMI provided the development receives city final development plan approval within 24 months of issuance of building permit for the market rate development; or

(3) To a NOAH property in the city to maintain, rehabilitate, and preserve the existing affordable housing units within 24 months provided the developer submits a maintenance repair plan and enters into an affordable housing agreement approved by the city.

(e) The payment amount will be reviewed by resolution of the City Council when research is conducted in support of this section and pursuant to §§ 9.01 through 9.03 or when otherwise determined necessary by City Council or staff.

(f) A developer that chooses to make a payment in lieu of the opportunity housing requirement in §9.06 is not eligible for the affordable housing tools and incentives described in §§ 9.15 through 9.31.

(g) Interest earned from in lieu payment held in the Affordable Housing Trust Fund will be exclusively directed to the Affordable Housing Trust Fund. The Affordable Housing Trust Fund will retain, manage, and utilize the earned interest for affordable housing activities.

(h) If the requirements of § 9.09(d) are not met by the stated deadline, in lieu payment will be released to the Affordable Housing Trust Fund for affordable housing activities.

(i) If a housing development pursuant to the requirements of § 9.09(d) receives city final development plan approval but the approval expires or is cancelled by the developer for any reason, in lieu payment will be released to the Affordable Housing Trust Fund for affordable housing activities.

(j) If a NOAH project pursuant to the requirements of § 9.09(d) enters into an affordable housing agreement approved with the city but loses its status as NOAH, in lieu payment will be released to the Affordable Housing Trust Fund for affordable housing activities.

(Ord. 2019-16, passed 2-25-2019; Ord. 2020-40, passed 11-23-2020; Ord. 2021-1, passed 3-8-2021; Ord. 2024-5, passed 3-18-2024)

§ 9.10 DEDICATION OF LAND IN LIEU OF CONSTRUCTION OF OPPORTUNITY HOUSING UNITS.

(a) The opportunity housing requirement in §9.06 may be satisfied by the dedication of land in lieu of constructing opportunity housing units within the development when the Community Development Department determines that all of the following requirements will be met:

(1) Marketable title to the site(s) is transferred to the city, or an affordable housing developer approved by the city, prior to the commencement of construction of the residential development pursuant to an agreement between the developer and the city, and such agreement is determined by the City Council, at its sole discretion, to be in the best interest of the city;

(2) The site(s) has a comprehensive plan designation authorizing residential uses and is zoned for residential development at a density to accommodate at least the number of otherwise required opportunity housing units within the residential development and conforms to city development standards;

(3) The site(s) can accommodate development of the opportunity housing units;

(4) Sufficient infrastructure to serve the site(s) proposed to be dedicated including, but not limited to, streets and public utilities, must be available at the property line with adequate capacity to serve the maximum allowable residential development pursuant to zoning regulations;

(5) Environmental review of the site(s) has been completed for the presence of water, hazardous materials, radon, lead, environmental toxins, and geological hazards and all such hazards are or will be mitigated to the satisfaction of the city prior to acceptance of the site by the city;

(6) The assessed value of the site(s) upon the date of dedication is equal to or greater than the in lieu of payment in effect at the date of dedication;

(7) The site(s) proposed to be dedicated complies with the dispersion objective pursuant to §9.36; and

(8) Any applicable requirements in the opportunity housing guidelines.

(b) The city will not be required to construct opportunity housing units on the site(s) dedicated to the city, but may sell, transfer, lease, or otherwise dispose of the dedicated site(s). Any funds collected as the result of a sale, transfer, lease, or other disposition of sites dedicated to the city under this section will be deposited into the city's Affordable Housing Trust Fund and used in accordance with the provisions of § 9.38 and City Charter.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019; Ord. 2024-5, passed 3-18-2024)

§ 9.11 PURCHASE AND REHABILITATION OF NATURALLY OCCURRING AFFORDABLE HOUSING (NOAH).

(a) As an alternative to the requirements provided in section9.06(a) or 9.09, a developer may purchase and substantially rehabilitate NOAH units in a manner that preserves long-term affordability.

(b) A developer that proposes to use the alternative described in subsection (a) above must submit an affordable housing plan for review and approval by the Community Development Department that demonstrates how the proposal will achieve the objectives of this chapter by creating opportunity housing equal to or excess of the value of the required opportunity housing units. The value determination must consider the number and type of units that would be preserved, affordability, and the duration of affordability.

(c) A qualified developer, with the consent of each party with a legally recognized interest, seeking to acquire a NOAH property with at least 20 dwelling units in the city in order to preserve the property as having at least 20% of the units affordable to households at or below 60% of AMI for ten years may apply to the city for assistance, at a per unit rate listed in City Code Appendix A in order to submit its first year application to the State of Minnesota for a property tax reduction certification, commonly known as 4d classification. The requirements of a qualified developer are set forth in the opportunity housing guidelines.

(Ord. 2019-16, passed 2-25-2019; Ord. 2020-40, passed 11-23-2020)

§ 9.12 ACQUISITION, CONVERSION, AND REHABILITATION OF EXISTING MARKET RATE UNITS.

The opportunity housing requirement in § 9.06 may be satisfied by the acquisition and substantial rehabilitation of existing market rate units for conversion to opportunity housing units affordable to households at or below 60% AMI only when the Community Development Department determines that the following requirements are met:

(a) Two market rate dwelling units must be acquired and substantially rehabilitated for each opportunity housing unit required, and the overall development must achieve a minimum of 20% opportunity housing units;

(b) The developer provides notice and temporary relocation assistance to existing residents in the units to be rehabilitated and as further required by the opportunity housing guidelines;

(c) The site is zoned for residential development at a density that can accommodate the number of units after the requirements of § 9.12 are met;

(d) The site complies with applicable building and housing code requirements;

(e) A physical needs assessment must be performed by the developer to the satisfaction of the city on each dwelling unit to be acquired and rehabilitated, the site upon which the development is located, and any associated common area, and include:

(1) Items identified for repair, replacement, and maintenance at the time of the assessment and within three years of the assessment;

(2) A plan to complete all identified repairs, replacement, and maintenance prior to the approval of the dwelling unit as an opportunity housing unit; and

(3) Description of the method by which a capital reserve for repair, replacement and maintenance will be established, initially capitalized, and maintained for the duration of the affordability term.

(f) Environmental review of the site has been completed for the presence of water, hazardous materials, radon, lead, environmental toxins, and geological hazards, and is clear of all such hazards to the satisfaction of the city;

(g) The construction schedule for the units to be substantially rehabilitated are included in the affordable housing plan pursuant to § 9.32;

(h) The rehabilitation of the dwelling units are scheduled to be completed prior to or concurrently with the market rate residential development pursuant to § 9.36(e);

(i) The number of bedrooms in the dwelling units to be rehabilitated must be substantially the same as the market rate residential dwelling units, as set forth in the opportunity housing guidelines; and

(j) The term of affordability of the opportunity housing units must be provided pursuant to § 9.37 and must commence upon initial occupancy of the opportunity housing units.

(Ord. 2019-16, passed 2-25-2019)

§ 9.13 COLLABORATION WITH AN AFFORDABLE HOUSING DEVELOPER.

The opportunity housing requirement in § 9.06 may also be satisfied through partnership with an affordable housing developer , wherein the developer or a related interested party negotiates a financial contribution to an affordable housing developer that is equal to or no less than the equivalent in lieu of payment set forth in § 9.09 in exchange for construction and deed restriction of the required opportunity housing units within the city. This option may only be used when the city is not providing any other additional funds to the same affordable housing developer for the same development. In cases where opportunity housing units are constructed off site, the tools and incentives described in Article III apply only to the site hosting the opportunity housing units.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019)

§ 9.14 COMBINATION OF METHODS TO PROVIDE OPPORTUNITY HOUSING.

The developer of a development may propose to use any combination of methods in §§ 9.07 to 9.13 to meet the requirements of § 9.06. Said proposal must:

(a) Be described in the affordable housing plan submitted to the city pursuant to § 9.32;

(b) Meet the requirements of this chapter and the opportunity housing guidelines;

(c) Demonstrate the provision of substantially the same or greater level of affordability and quantity of affordable housing as required pursuant to § 9.06; and

(d) Be approved by the City Council.

(Ord. 2019-16, passed 2-25-2019)

ARTICLE III: AFFORDABLE HOUSING TOOLS AND INCENTIVES

§ 9.15 AFFORDABLE HOUSING TOOLS AND INCENTIVES.

(a) The developer of any of the following types of development that creates 20 or more total dwelling units or preserves 20 or more NOAH units is eligible to use any of the following affordable housing tools and incentives for which it qualifies:

(1) New residential rental and for-sale construction;

(2) New mixed-use development with a residential rental or for-sale component;

(3) Purchase of an existing naturally occurring affordable housing complex;

(4) Renovation and acquisition of a multiple-family residential structure that preserves or increases the number of residential units from the number of units in the original structure;

(5) Conversion of an existing single-family residential structure to a multiple-family residential structure;

(6) Development that changes the use of an existing building from nonresidential to residential;

(7) Development that results in the conversion of rental residential property to condominium property; and

(8) Development located in the opportunity zone.

(b) For developments that include existing units affordable to households with incomes at or below 60% of AMI, to qualify for the tools and incentives of this article a development must have a net gain in total housing units on the site(s) of the development affordable to households with incomes at or below 60% of AMI that is equivalent or greater than the number required in § 9.06.

(c) A development that complies with the requirements of this chapter by payment pursuant to § 9.09 is not eligible to use the affordable housing tools and incentives described in this article.

(d) To use the tools and incentives described in this article, prior to issuance of a certificate of occupancy, the developer of a qualifying development must provide the city with record evidence of a covenant that maintains the opportunity housing units as affordable rental housing to households at or below 60% of AMI or affordable owner-occupied housing to households at or below 110% of AMI, or both as applicable, for a period of no less than 20 years.

(e) Use of an individual tool or incentive described in this article is prohibited if the City Council determines that the resulting development has the potential to negatively impact the surrounding neighborhood and that the negative impacts outweigh the positive benefits of the opportunity units created.

(f) The City Council may, at its sole discretion, allow use of the incentives for developments that create or preserve less than 20 units where the City Council finds it to be in the public's interest.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019; Ord. 2021-1, passed 3-8-2021)

§ 9.16.01 DENSITY BONUS.

(a) To incentivize the creation of opportunity housing units, a residential development within a designated transit area and within zoning districts regulating development intensity through units per acre maximums qualify for the following density bonuses for each affordable unit provided at varying household income levels as follows:

(1) Each extremely low and very low income household unit qualifies the overall development for two bonus dwelling units up to a maximum of a 50% increase over current zoning; and

(2) Each low income household unit affordable to households at or below 60% of AMI qualifies the overall development for one bonus dwelling unit up to a maximum of a 50% increase over current zoning.

(b) In no instance may density bonus units be allocated to parcels designated by the comprehensive plan for residential densities of less than five dwelling units per gross acre.

(Ord. 2019-16, passed 2-25-2019; Ord. 2021-1, passed 3-8-2021)

§ 9.16.02 SITE AREA REDUCTION.

(a) To incentivize the creation of opportunity housing units, a residential development that includes at least 9% of its total dwelling units affordable to households at or below 60% of AMI may reduce the required minimum site area as follows unless the City Council determines that the reduction is likely to create a specific adverse public health, safety, or welfare impact or would otherwise conflict with local, state, or federal regulations, rules, or laws:

(1) A development with at least 9% of its units qualifying as extremely low income affordable housing may reduce minimum site area requirements by up to 50%;

(2) A development with 9% of its units qualifying as very low income affordable housing may reduce minimum site area requirements by up to 25%; or

(3) A development with 9% of its units qualifying as low income affordable housing may reduce minimum site area requirements by up to 10%.

(b) The minimum site area reductions provided in this section are not cumulative. Each qualifying development is eligible for only one minimum site area reduction of 10%, 25%, or 50% depending on the level of affordability provided.

(Ord. 2021-1, passed 3-8-2021)

§ 9.16.03 SITE WIDTH REDUCTION.

(a) To incentivize the creation of opportunity housing units, a residential development that includes at least 9% of its total dwelling units affordable to households at or below 60% of AMI may reduce the required minimum site width as follows unless the City Council determines that the reduction is likely to create a specific adverse public health, safety, or welfare impact or would otherwise conflict with local, state, or federal regulations, rules, or laws:

(1) A development with at least 9% of its units qualifying as extremely low income affordable housing may reduce minimum site width requirements by up to 50%;

(2) A development with 9% of its units qualifying as very low income affordable housing may reduce minimum site width requirements by up to 25%; or

(3) A development with 9% of its units qualifying as low income affordable housing may reduce minimum site width requirements by up to 10%.

(b) The minimum site width reductions provided in this section are not cumulative. Each qualifying development is eligible for only one minimum site width reduction of 10%, 25%, or 50% depending on the level of affordability provided.

(Ord. 2021-1, passed 3-8-2021)

§ 9.16.04 RESERVED.

§ 9.16.05 OPEN SPACE REDUCTION.

(a) To incentivize the creation of opportunity housing units, a residential development that includes at least 9% of its total dwelling units affordable to households at or below 60% of AMI may reduce the required minimum usable open space as follows unless the City Council determines that the reduction is likely to create a specific adverse public health, safety, or welfare impact or would otherwise conflict with local, state or federal regulations, rules, or laws:

(1) A development with at least 9% of its units qualifying as extremely low income affordable housing may reduce minimum usable open space requirements by up to 50%;

(2) A development with 9% of its units qualifying as very low income affordable housing may reduce minimum usable open space requirements by up to 25%; or

(3) A development with 9% of its units qualifying as low income affordable housing may reduce minimum usable open space requirements by up to 10%.

(b) The minimum usable open space reductions provided in this section are not cumulative. Each qualifying development is eligible for only one minimum usable open space reduction of 10%, 25%, or 50% depending on the level of affordability provided.

(Ord. 2021-1, passed 3-8-2021)

§ 9.17 FLOOR AREA RATIO BONUS.

(a) To incentivize the creation of opportunity housing units, a residential development within a designated transit area and within zoning districts regulating development intensity through floor area ratio maximums qualify for the following floor area ratio bonuses for each affordable unit provided at varying household income levels as follows:

(1) Each extremely low and very low income household unit qualifies the overall development for 2,000 square feet of bonus floor area ratio up to a maximum of a 50% increase over current zoning.

(2) Each low income household unit affordable to households at or below 60% of AMI qualifies the overall development for 1,000 square feet of bonus floor area ratio up to a maximum of a 50% increase over current zoning.

(b) In no instance may floor area ratio bonuses be allocated to parcels designated by the comprehensive plan for residential densities of less than five dwelling units per gross acre.

(Ord. 2019-16, passed 2-25-2019)

§ 9.18 HEIGHT BONUS.

(a) To incentivize the construction of a mixture of opportunity housing units for households at or below 60% of AMI, the developer of a multiple-family development with at least 9% of its total dwelling units affordable to households at or below 60% of AMI qualifies for a height bonus of one additional story and 10 additional feet above the height limit set forward on the City's height limits map.

(b) This section may not be interpreted to allow a height bonus that exceeds the requirements and limitation of the Federal Aviation Administration or the MSP Airport Zoning Ordinance.

(Ord. 2019-16, passed 2-25-2019; Ord. 2021-1, passed 3-8-2021)

§ 9.19 PARKING REDUCTION.

(a) To incentivize the creation of opportunity housing units, a residential development with at least 9% of its total dwelling units affordable to households at or below 50% of AMI qualifies for car parking reductions provided that the development agreement required pursuant to § 9.35 affirms that the owner will not charge opportunity housing units in the residential development for access to parking. Potential parking reduction incentives are based upon the level of affordability as follows:

Affordability provided:	***Projects located in the Designated Transit Area, Tier I:***	***Projects located in the Designated Transit Area, Tier II:***	***Projects located outside a Designated Transit Area:***
9% of units qualifying as very low or extremely low income	15%	10%	5%
20% of units qualifying as very low income	25%	20%	10%
50% of units qualifying as very low income or 20% of units qualifying as extremely low income	35%	30%	15%
100% of units qualifying as very low income or 50% of units qualifying as extremely low income	45%	40%	20%

(b) The car parking reductions provided in this section are not cumulative. Each qualifying development is eligible for only one parking reduction of 5% to 45% depending upon the level of affordability provided.

(c) In mixed use developments, potential parking reduction incentives may only be applied to the parking requirement created by the residential portion of the development.

(d) Opportunity housing units must have access to parking spaces that are comparable in quality and design to parking spaces accessible to market rate units. For example, if a development has enclosed and unenclosed parking spaces, the development agreement required pursuant to § 9.35 will affirm that the availability of enclosed and unenclosed parking spaces to opportunity housing units will be proportional to the availability of enclosed and unenclosed parking spaces to market rate units.

(e) If a development seeks a parking reduction incentive at or above 30%, the City Engineer or their designee may require a parking study, prepared by an independent traffic engineering professional, to help the City Council determine if the parking incentive reduction is appropriate for a particular development, or if it should be adjusted, when there is evidence that the proposed parking supply reduction may negatively impact the surrounding public roadway network or adjacent land uses.

(Ord. 2019-16, passed 2-25-2019; Ord. 2021-1, passed 3-8-2021; Ord. 2022-30, passed 6-6-2022; Ord. 2024-5, passed 3-18-2024)

§ 9.20 ENCLOSED PARKING SPACE CONVERSION ALLOWANCE.

(a) To incentivize the creation of opportunity housing units, a residential development that includes at least 9% of its total dwelling units affordable to households at or below 60% of AMI may convert required enclosed parking spaces to unenclosed parking spaces depending on the level of affordability provided as follows:

(1) A development with 9% of its units qualifying as extremely low income affordable housing qualifies to convert 50% of required enclosed parking spaces to unenclosed parking spaces provided that the affordable housing agreement required pursuant to § 9.32 provides that the owner will make all parking spaces accessible to the opportunity housing units without charge;

(2) A development with 20% of its units qualifying as extremely low income affordable housing qualifies to convert 100% of required enclosed parking spaces to unenclosed parking spaces provided that the affordable housing agreement required pursuant to § 9.32 provides that the owner will make all parking spaces accessible to the opportunity housing units without charge;

(3) A development with 9% of its units qualifying as very low income affordable housing qualifies to convert 50% of required enclosed parking spaces to unenclosed parking spaces provided that the recorded affordable housing agreement required pursuant to § 9.32 provides that the owner will make all parking spaces accessible to the opportunity housing units without charge; or

(4) A development with 9% of its units qualifying as low income affordable housing qualifies to convert 10% of required enclosed parking spaces to unenclosed parking spaces provided that the recorded affordable housing agreement required

pursuant to § 9.32 provides that the owner will make all parking spaces accessible to the opportunity housing units without charge.

(b) The enclosed parking space conversion allowances provided in this section are not cumulative. Each qualifying development is eligible for only one enclosed parking space conversion allowance of 10% to 100% depending on the level of affordability provided.

(c) In mixed use developments, potential enclosed parking space conversion allowance incentives may only be applied to the required enclosed parking spaces created by the residential portion of the development.

(d) Opportunity housing units must have access to parking spaces that are comparable in quality and design to parking spaces accessible to market rate units. For example, if a development has enclosed and unenclosed parking spaces, the development agreement required pursuant to § 9.35 will affirm that the designation of enclosed and unenclosed parking spaces to opportunity housing units will be proportional to the designation of enclosed and unenclosed parking spaces to market rate units.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019; Ord. 2021-1, passed 3-8-2021; Ord. 2024-5, passed 3-18-2024)

§ 9.21 MINIMUM UNIT SIZE REDUCTION.

(a) To incentivize the construction of opportunity housing units affordable to households at or below 60% of AMI, a residential development that includes at least 9% opportunity housing units affordable to households at or below 60% of AMI, may reduce minimum unit size by the following amounts:

(1) Each extremely low income opportunity housing unit qualifies for a 30% unit size reduction;

(2) Each very low income opportunity housing unit qualifies for a 20% unit size reduction; or

(3) Each low income opportunity housing unit that is affordable to a household at or below 60% of AMI qualifies for a 10% unit size reduction.

(b) The minimum unit size reductions provided in this section are not cumulative. Each qualifying development is eligible for only one minimum unit size reduction of 10%, 20%, or 30% for the opportunity housing units depending on the level of affordability provided.

(Ord. 2019-16, passed 2-25-2019)

§ 9.22 ALTERNATIVE EXTERIOR MATERIALS ALLOWANCE.

(a) To incentivize the construction of opportunity housing units affordable to households at or below 60% of AMI, a residential development that includes at least 9% of its total dwelling units affordable to households at or below 60% of AMI may use the alternative exterior materials of fiber cement, engineered wood, exterior insulation finishing system (EIFS), and 20 year warranty metals on façades not facing public streets where otherwise not allowed by the city code as follows:

(1) A development with 9% of its units qualifying as extremely low income affordable housing may cover up to 100% of qualifying façades with the listed alternative exterior materials;

(2) A development with 9% of its units qualifying as very low income affordable housing may cover up to 75% of qualifying façades with the listed alternative exterior materials; or

(3) A development with 9% of its units qualifying as low income affordable housing may cover up to 50% of qualifying façades with the listed alternative exterior materials.

(b) The alternative exterior material allowances provided in this section are not cumulative. Each qualifying development is eligible for only one alternative construction material allowance of 50%, 75%, or 100% depending on the level of affordability provided.

(Ord. 2019-16, passed 2-25-2019; Ord. 2021-1, passed 3-8-2021)

§ 9.23 STORAGE SPACE REDUCTION.

To incentivize the construction of opportunity housing units, a multiple-family development that includes at least 9% of its total dwelling units affordable to households at or below 60% of AMI may reduce the required number of storage spaces outside the dwelling unit by 50% provided that the development agreement pursuant to § 9.35 provides that the owner will make storage space accessible to the opportunity housing units without charge. A multiple-family development that includes at least 20% of its total dwelling units affordable to households at or below 50% of AMI may reduce the required number of storage spaces outside the dwelling unit by 75%. A multiple-family development that includes at least 10% of its total dwelling units affordable to households at or below 30% of AMI may reduce the required number of storage spaces outside the dwelling unit by 90%.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019; Ord. 2021-1, passed 3-8-2021; Ord. 2024-5, passed 3-18-2024)

§ 9.24 LANDSCAPE FEE IN-LIEU REDUCTION.

To incentivize the construction of opportunity housing units affordable to households at or below 60% of AMI, a residential development that includes at least 9% of its total dwelling units affordable to households at or below 60% of AMI may reduce the fee in lieu for providing landscaping on a constrained site, where such fee in lieu is approved by the city council, as follows: developments with 9% mix of its total units qualifying as extremely low or very low income opportunity housing units may reduce the fee by 100%.

(Ord. 2019-16, passed 2-25-2019)

§ 9.25 DEVELOPMENT FEE REIMBURSEMENT.

For any development located within the Gateway Area, upon a showing of demonstrated need, the city will consider reimbursing all or a portion of the zoning application fees, building permit fees, park dedication fees, sewer availability charge (SAC) fees and related infrastructure fees from the Affordable Housing Trust Fund for a development in which a minimum 20% of units are affordable to a mix of households with incomes at or below 50% of AMI, as follows:

Developer provides at least:	The city may provide up to:
20% affordable units per building	30% fee reimbursement
25% affordable units per building	40% fee reimbursement
30% affordable units per building	50% fee reimbursement
40% or more affordable units per building	75% fee reimbursement
50% or more affordable units per building	100% fee reimbursement

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019; Ord. 2021-1, passed 3-8-2021)

§ 9.26 DEVELOPMENT FEE DEFERMENT.

(a) The city may consider development fee deferrals from the Affordable Housing Trust Fund for zoning application fees, building permit fees, park dedication fees, sewer availability charge (SAC) fees and related infrastructure fees to a qualifying development under the following circumstances:

(1) When a residential development includes more than the required 9% of its total dwelling units as opportunity housing affordable to households at or below 60% of AMI, when calculated before any applicable density bonus, the development may be eligible to defer up to the full amount of its development fees until 12 months after the development obtains its certificate of occupancy. The city will charge an annual interest of 5% during the deferral period.

(2) When a residential development includes at least a 20% of its total dwelling units as opportunity housing affordable to households at or below 60% of AMI, when calculated before any applicable density bonus, the development may be eligible to defer up to the full amount of its development fees until 24 months after the development obtains its certificate of occupancy. The city will charge an annual interest of 5% during the deferral period.

(b) The interest paid to the city during the deferral will be deposited into the Affordable Housing Trust Fund.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019; Ord. 2021-1, passed 3-8-2021; Ord. 2024-5, passed 3-18-2024)

§ 9.27 EXPEDITED REVIEW OF PLANS.

The developer of a residential development that provides opportunity housing affordable to households at or below 30% of AMI will be eligible to move to the front of the review queue for building permit applications by the Community Development Department.

(Ord. 2019-16, passed 2-25-2019; Ord. 2021-1, passed 3-8-2021; Ord. 2024-5, passed 3-18-2024)

§ 9.28 LAND WRITE-DOWN FOR AFFORDABLE HOUSING ON CITY-OWNED LAND.

For a developer proposing a development with a mix of opportunity housing affordable to households at or below 60% of AMI for multiple-family developments and moderate income up to 110% of AMI for home ownership projects, at a minimum threshold of 20%, the city may, upon a showing of demonstrated need, reduce land costs to achieve the 20% threshold to support the development reaching affordability. Any sales price reduction must be allowed by the City Charter and city code and approved by the City Council. Where a land write-down is approved, the city will require at least a 20 year deed restriction on those units identified as affordable for extremely low, very low, and low income households to ensure long-term affordability.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019)

§ 9.29 AFFORDABLE HOUSING TRUST FUND.

The city may consider awarding funding from the Affordable Housing Trust Fund under Article VIII. § 9.39.

(Ord. 2021-1, passed 3-8-2021; Ord. 2024-5, passed 3-18-2024)

§ 9.30 HOUSING TAX INCREMENT FINANCING (TIF).

Where eligible under applicable state laws and when consistent with the city's TIF policy, the city may, upon a showing of demonstrated need, consider the use of a housing TIF district as a way to incentivize the creation of housing developments that are affordable at a minimum 20% of units which include a mix of opportunity housing units affordable to households at or below 60% of AMI. TIF will only be used proportionately in exchange for more affordable units or a greater level of affordability or both, and will not be used to finance market rate projects.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019)

§ 9.31 PROJECT BASED HOUSING VOUCHERS (PBV).

The city, through its HRA, shall allocate project-based vouchers annually in support of the creation of opportunity housing units for households at or below the extremely low and very low median income limits at or below 50% of AMI.

(Ord. 2019-16, passed 2-25-2019)

ARTICLE IV: AFFORDABLE HOUSING PLAN

§ 9.32 AFFORDABLE HOUSING PLAN REQUIREMENTS.

(a) *Affordable housing plan.* Each residential development to which this chapter applies must submit an affordable housing plan to the city as a part of the application for final site and building plan, final development plan, or NOAH preservation in accordance with the requirements of § 9.06. An affordable housing plan is not required for a development in which the affordable housing obligation is satisfied by a payment pursuant to § 9.09.

(b) *Content.* The affordable housing plan must include the following:

(1) A summary of the tools, methods, and related approaches used to meet the requirements of §9.06;

(2) The development philosophy and description of project performance metrics including, but is not limited to, development returns such as return on costs, return on equity, and both leveraged and unleveraged internal rate of return to assist the city in analyzing public participation;

(3) The number, location, description of the structure such as but not limited to attached, semi-attached, or detached, size and cost of the proposed market rate and affordable units;

(4) Description of affordable housing tools and incentives being requested as described in §§9.15 through 9.31;

(5) A site plan and floor plan depicting the location of the affordable and the market rate units;

(6) The income levels to which each affordable unit will be made affordable;

(7) The methods to be used to advertise the availability of the affordable units;

(8) For a phased development, a phasing plan that provides for the timely development of the number of affordable units proportionate to the number of market rate units for each proposed phase of development;

(9) Written confirmation that households with U.S. Department of Housing and Urban Development (HUD) Housing Choice Voucher rent assistance will be considered for tenancy in rental development;

(10) Written confirmation that compliance with monitoring and auditing requirements as described in §9.37 will be met;

(11) The methods to be used to maintain affordability and the duration over which affordability will be maintained; and

(12) Any additional information reasonably requested by the Community Development Department to assist with evaluation of the affordable housing plan.

(13) Written documentation of how the development meets the objectives described in §9.36.

(c) A developer or owner may propose an alternative method to meet the opportunity housing requirement pursuant to § 9.06 that does not strictly comply with §§9.07 through 9.14 and the tools and incentive sections §§9.15 through 9.31. Based on evidence specified in the affordable housing plan, the Community Development Department must make a recommendation to the City Council on whether to approve such an alternative if the alternative will provide as much or more affordable housing at the same or lower income levels, and of the same or superior quality of design and construction, and will otherwise provide greater public benefit than compliance with the requirements of this chapter.

(d) Upon submittal, the Community Development Department will determine if the affordable housing plan is complete and conforms to the provisions of this chapter and the opportunity housing guidelines. The decision of the Community Development Department may be appealed pursuant to § 2.85.05 of the city code.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019; Ord. 2021-1, passed 3-8-2021; Ord. 2024-5, passed 3-18-2024)

§ 9.33 RENTAL PRICE LEVELS FOR AFFORDABLE UNITS AND ECONOMIC STABILITY.

(a) The affordable housing plan must establish unit rents per income level type and unit size and be leased to eligible households. The monthly rent of the opportunity housing unit at the time of lease signing must be affordable to households at or below 60% of AMI.

(b) After the signing of the initial lease with an eligible household, to support economic sustainability of the household and the development, and to minimize turnover of an otherwise eligible household due to income growth or loss, the lease may be renewed to the same household as follows:

(1) Unless in conflict with the requirements of other funding, an extremely low, very low, or low income household whose household income rises may remain an eligible household for one additional period of up to five years provided the household income does not exceed 140% of the applicable median income adjusted for family size.

(2) An extremely low, very low, or low income household whose household income falls below the income level for which the household originally qualified due to loss of employment that is not the result of a local, state or federal crime and the household is otherwise in good standing as a tenant, may qualify to receive partial rent assistance from the Affordable Housing Trust Fund, if eligible funding is available, for up to two years provided the household can meet the requirements of the opportunity housing guidelines.

(3) As a household transitions out of eligibility for an opportunity housing unit, the next unit of similar size and type that becomes vacant must be assigned an affordable rent and be made available to a household whose income is at or below the unit's required AMI as established in the development agreement required pursuant to § 9.35.

(c) Upon the request of the city, a household or property manager must submit documentation in a form acceptable to the city that the household remains eligible for an opportunity housing unit.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019; Ord. 2021-1, passed 3-8-2021; Ord. 2024-5, passed 3-18-2024)

§ 9.34 ELIGIBILITY FOR AFFORDABLE UNITS.

No household may purchase or lease an opportunity housing unit created as a result of this chapter unless the household is a qualifying household pursuant to the requirements of this chapter and the household occupies the opportunity housing unit as its primary residence.

(Ord. 2019-16, passed 2-25-2019)

ARTICLE V: AFFORDABLE HOUSING AGREEMENT

§ 9.35 AFFORDABLE HOUSING AGREEMENT.

(a) Prior to the issuance of a building permit for any units in an affordable housing development or any development, including NOAH preservation, in which an opportunity housing unit is required, the applicant must have entered into a development agreement with the city. The development agreement must set forth the commitments and obligations of both the city and the applicant, including those requirements and limitations set forth in this chapter, such as, but not limited to, the affordable housing plan.

(b) The applicant must execute any and all documents deemed necessary by the city in a form to be established by the city, including without limitation, covenants, deed restrictions, and related instruments, including requirements for income qualification to ensure the continued affordability of the opportunity housing units in accordance with this chapter.

(c) The development agreement may contain a right of first refusal statement providing the city, or another entity, with the option to purchase the property to preserve the opportunity housing units before the development is placed on the open market for resale.

(Ord. 2019-16, passed 2-25-2019)

ARTICLE VI: DISPERSION, INTEGRATION, DESIGN, PHASING, AND CONSTRUCTION

OF OPPORTUNITY HOUSING UNITS OBJECTIVES

§ 9.36 OBJECTIVES.

Developments with opportunity housing units must meet the following objectives:

(a) *Dispersion*. Opportunity housing unit dispersion means the distribution of opportunity housing units throughout all areas of the city in order to avoid concentrations of only affordable housing and to encourage racial and economic integration. Opportunity housing units built pursuant to this chapter must meet all requirements of the city code and any additional requirements for units as specified in this chapter.

(b) *Integration*. Opportunity housing units in a housing development must be mixed with, and not clustered together or segregated in any way from market rate units in the housing development. Opportunity housing units in a housing development must be distributed across all unit sizes proposed in the housing development, including: efficiencies, one, two, and three or more bedroom units.

(c) *Design*. Except as otherwise provided in this chapter, opportunity housing units must be comparable in construction quality and exterior design to the market rate units constructed as part of the development. For developments in which in-unit amenities are not included with all dwelling units, the in-unit amenities must be offered to opportunity housing units in a proportionate amount to market rate units.

(d) *Phasing plan*. If the development contains a phasing plan, the phasing plan must provide for the proportionate development of opportunity housing units concurrently with the market-rate units. The phasing plan must not provide that the opportunity housing units are the last built units in a development.

(e) *Timing of construction*. A certificate of occupancy for market rate units within the development must not be issued until a certificate of occupancy is issued for a proportionate amount of opportunity housing units within the development. In phased developments, opportunity housing units must be constructed and occupied in proportion to the number of units in each phase of the residential development.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019; Ord. 2021-1, passed 3-8-2021; Ord. 2024-5, passed 3-18-2024)

ARTICLE VII: MONITORING AND COMPLIANCE

§ 9.37 COMPLIANCE OF AFFORDABLE HOUSING AGREEMENT AND AFFORDABILITY CONTROLS.

(a) The Community Development Department may promulgate rules, policies, and guidelines as necessary to implement this chapter and such rules, policies, and guidelines must be approved by the city council. On an annual basis, the Community Development Department will publish or otherwise make available the U.S. Department of Housing and Urban Development household income limits and rental limits applicable to affordable units within the city and determine an inflation factor to establish a resale price of an opportunity housing unit.

(b) The affordable housing development agreement must compel the applicant or applicant's agent responsible for managing opportunity housing units in a rental development to submit an annual report to the Community Development Department by February 1 for the previous calendar year that includes the following information for each development site:

(1) A list of all opportunity housing units;

(2) Vacancy information;

(3) The monthly rent for each opportunity housing unit;

(4) Monthly income for tenants of each opportunity housing unit;

(5) Information sufficient to determine whether tenants of rented units qualify as extremely low, very low, low or moderate-income households; and

(6) Any other information as required by the city, while ensuring tenant privacy rights.

(c) For all sales of for-sale opportunity housing units, the parties to the conveyance must execute and record such documentation as required by the affordable housing development agreement. Such documentation must include the applicable provisions of this chapter and provide, at a minimum, each of the following:

(1) The opportunity housing unit must only be sold to and occupied by eligible households for the first 20 years from the date of the initial certificate of occupancy; and

(2) The opportunity housing unit must be conveyed subject to restrictions that maintain the affordability of such opportunity housing units for eligible households.

(d) In the case of rented opportunity housing units, the owner of the housing development must execute and record such documentation as required by the affordable housing development agreement. Such documentation must include the applicable provisions of this chapter and provide, at a minimum, each of the following:

(1) The opportunity housing units must be leased to and occupied by eligible households;

(2) The opportunity housing units must be leased at rent levels affordable to eligible households for a period of 20 years from the date of the initial certificate of occupancy; and

(3) Subleasing of opportunity housing units is not permitted without the express written consent of the Community Development Department.

(Ord. 2019-16, passed 2-25-2019)

ARTICLE VIII: AFFORDABLE HOUSING TRUST FUND

§ 9.38 ESTABLISHMENT OF TRUST FUND.

The city will establish an Affordable Housing Trust Fund for the purpose of collecting funds related to the city's affordable housing programs pursuant to this chapter. Such funds will include but not be limited to payment of fees in lieu of opportunity housing units and shared appreciation dollars collected at the closing of sales of designated properties. The funds in the Affordable Housing Trust Fund and all earnings from investment of said funds will be expended exclusively to provide rental housing affordable to households at or below 60% of AMI and home ownership opportunities affordable to households at or below 115% AMI.

(Ord. 2019-16, passed 2-25-2019; Ord. 2024-5, passed 3-18-2024)

§ 9.39 APPLICABLE HOUSING TRUST FUND ELIGIBLE ACTIVITIES.

(a) The funds collected for deposit in the Affordable Housing Trust Fund may be utilized for the following affordable housing activities:

(1) Acquisition and construction of affordable housing units;

(2) Gap financing for affordable units created at the extremely low, very low, and low income levels;

(3) Enhancement of county, state, and federal affordable housing programs;

(4) Purchase or rehabilitation, or both, and long-term preservation of NOAH units to be affordable to households at or below 60% of AMI;

(5) Home rehabilitation of existing single family owner-occupied units to retain affordability;

(6) Low cost financing or grants in support of accessory dwelling unit creation affordable to households at or below 60% of AMI;

(7) Predevelopment services in support of affordable housing creation;

(8) Development fee reimbursement and deferral of fees in support of affordable housing creation;

(9) Land acquisition and land banking for affordable housing creation;

(10) Housing and economic development services in support of housing creation for low income families of two or more, non-disabled individuals, veterans, and homeless population;

(11) Support for paying the difference between affordable rents and market rate rents to preserve affordable housing due to loss of subsidy of expiring tax credit developments or sale of NOAH property;

(12) Infrastructure improvements;

(13) Relocation assistance; and

(14) Other activities to support affordable housing as determined by the City Council.

(b) The City Council from time-to-time may authorize by resolution additional activities that may be funded through the Affordable Housing Trust Fund.

(Ord. 2019-16, passed 2-25-2019; Ord. 2021-1, passed 3-8-2021; Ord. 2024-5, passed 3-18-2024)

§ 9.40 FINANCIAL OVERSIGHT OF THE AFFORDABLE HOUSING TRUST FUND.

The City Manager, or designee, will administer and supervise the Affordable Housing Trust Fund account and the city's Finance Department will administer the fund.

(Ord. 2019-16, passed 2-25-2019; Ord. 2024-5, passed 3-18-2024)

ARTICLE IX: IMPLEMENTATION EVALUATION AND ENFORCEMENT

§ 9.41 RESERVED.

§ 9.42 IMPLEMENTATION AND EVALUATION.

(a) The Community Development Director, may establish rules, policies, and guidelines to be approved by the City Council to assist in the implementation, administration, and evaluation of this chapter.

(b) On or before October 1 of each calendar year, the Community Development Director, or designee, will provide a report to the City Council on the implementation of this chapter.

(c) The City Attorney's Office is authorized to enforce the provisions of this chapter and all associated agreements, instruments, and other requirements by administrative or judicial action or any other proceeding or method permitted by law.

(d) The city may, at its discretion, take such enforcement action as is authorized under the city code and any other action authorized by law or by any regulatory document, restriction, or agreement executed under this chapter.

(e) Failure of any official or agency to fulfill or undertake any requirement of this chapter does not waive an applicant, developer, owner, or other legally obligated party's requirements of this chapter.

(f) No permit, license, map, or other approval or entitlement for a development will be issued by the city, including without limitation a final inspection or certificate of occupancy, until all applicable requirements of this chapter have been met to the satisfaction of the city.

(g) The remedies provided for herein are cumulative and not exclusive and do not preclude the city from any other remedy or relief to which it otherwise would be entitled under law or equity.

(Ord. 2019-16, passed 2-25-2019; Ord. 2021-1, passed 3-8-2021)

§ 9.43 SEVERABILITY.

If any section, subsection, paragraph, sentence or clause of this chapter is held to be unconstitutional, the remaining portions will remain valid and in force. The City Council hereby declares that it would have passed each section, subsection, sentence, paragraph, and clause despite the finding of unconstitutionality of one or more of the sections, subsections, paragraphs, sentences, or clauses.

(Ord. 2019-16, passed 2-25-2019; Ord. 2024-5, passed 3-18-2024)

§ 9.44 PENALTY.

Violation of any provision of this chapter will be a misdemeanor. Civil penalties may also be issued pursuant to § 12.15 of the city charter and § 1.19 of this city code. However, nothing in this ordinance will be construed to limit the city's other available legal remedies for any violation of the law, including without limitation, criminal, civil and injunctive actions.

(Ord. 2019-30, passed 8-5-2019; Ord. 2024-5, passed 3-18-2024)

ARTICLE X: RESERVED

ARTICLE XI: AFFORDABLE HOUSING TENANT PROTECTION

§ 9.45 AFFORDABLE HOUSING BUILDING SALE.

(a) *Definitions.* The following definitions apply in this article of the city code. Defined terms remain defined terms, whether or not capitalized.

(1) ***AFFORDABLE HOUSING*** building means a rented multiple-family dwelling, where at least 9% of the units rent for an amount that is affordable to households at or below 60% of AMI, as most recently determined by the United States Department of Housing and Urban Development for the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin Metropolitan Statistical Area, as adjusted for household size and number of bedrooms.

(2) ***AFFORDABLE HOUSING UNIT*** means a rental unit in an affordable housing building that rents for an amount that is affordable to households at or below 60% of AMI, as most recently determined by the United States Department of Housing and Urban Development for the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin Metropolitan Statistical Area, as adjusted for household size and number of bedrooms.

(3) ***CAUSE*** means the tenant or a member of the tenant's household materially violated a term of the lease.

(4) ***TENANT PROTECTION PERIOD*** means the period that commences when a real estate closing transfers ownership of an affordable housing building and runs through the end of the three calendar months following the month in which written notice of the transfer is delivered to each affordable housing unit tenant.

(b) *Relocation assistance*.

(1) If during the tenant protection period the new owner of an affordable housing building terminates or refuses to renew any affordable housing unit tenant's rental agreement without cause, then upon terminating or refusing to renew the tenant's lease, the new owner must pay to the tenant the equivalent of three months' rent, as relocation assistance, no later than the day upon which the tenant vacates the unit.

(2) If during the tenant protection period the new owner of an affordable housing building raises any affordable housing unit tenant's rent, or rescreens an existing affordable housing unit tenant, and the tenant gives written notice to the new owner to terminate the rental agreement, the new owner, must within 30 days of receiving tenant's written notice of termination of the rental agreement, pay to the tenant the equivalent of three months' rent as relocation assistance.

(c) *Notice to tenants.* Whenever ownership of an affordable housing building is transferred or is otherwise conveyed to a new owner or member of the prior owner, the new owner must within 30 days after the real estate closing that transfers or conveys ownership of the affordable housing building deliver written notice to each affordable housing unit tenant of the building that the property is under new ownership and all of the following information:

(1) The name, mailing address, and telephone number of the new owner.

(2) The following statement: "Bloomington City Code Section 9.45 provides for a three (3) month tenant protection period for affordable housing unit tenants. Under Section 9.45, an affordable housing unit tenant may be entitled to relocation assistance from the new owner if the new owner terminates or does not renew the tenant's rental agreement without cause within the three (3) month tenant protection period. An affordable housing unit tenant may also be entitled to relocation assistance from the new owner if the tenant terminates his or her rental agreement because the new owner raises the rent or initiates a tenant rescreening process within the three-month tenant protection period."

(3) Whether there will be any rent increase within the three month tenant protection period with the amount of the rent increase and the date the rent increase will take effect.

(4) Whether the new owner will require existing affordable housing unit tenants to be rescreened to determine compliance with existing or modified residency screening criteria during the three month tenant protection period and if so, a copy of the applicable screening criteria.

(5) Whether the new owner will terminate or not renew rental agreements without cause during the three month tenant protection period, and if so, notice to the affected affordable housing unit tenants whose rental agreements will terminate and the date the rental agreements will terminate.

(6) Whether the new owner intends to increase rent, require existing affordable housing unit tenants to be rescreened to determine compliance with existing or modified residency screening criteria, or terminate or not renew affordable housing unit rental agreements without cause on the day immediately following the tenant protection period.

(d) *Notice to the city*. The new owner must deliver a copy of the notice required by subsection (c) of this section to the City Community Development Director at the same time notice is delivered to tenants.

(e) *Required tenant protection period*. The new owner or member of the prior owner of an affordable housing building must not terminate or not renew a tenant's rental agreement without cause, raise rent, or rescreen existing tenants during the tenant protection period without providing the notices required by subsections (c) and (d) of this section.

(Ord. 2019-16, passed 2-25-2019; Ord. 2019-30, passed 8-5-2019; Ord. 2022-14, passed 4-25-2022)

CITY OF BLOOMINGTON MINNESOTA

Bloomington Opportunity Housing Incentives

Updated 3-18-2024

	Incentive	Low Income (Capped at 60%) 51% to 60% AMI	Affordability Very Low Income 31% to 50% AMI	Extremely Low Income at or Below 30% AMI
§9.16.01	Density Bonus	1 additional unit allowed per low-income unit provided capped at 50% density increase	2 additional units allowed per very low-income unit provided capped at 50% density increase	2 additional units allowed per extremely low-income unit provided capped at 50% density increase
§9.16.02	Site Area Reduction	May reduce minimum site area requirements by up to 10%	May reduce minimum site area requirements by up to 25%	May reduce minimum site area requirements by up to 50%
§9.16.03	Site Width Reduction	May reduce minimum site width requirements by up to 10%	May reduce minimum site width requirements by up to 25%	May reduce minimum site width requirements by up to 50%
§9.16.05	Open Space Reduction	May reduce minimum open space requirements by up to 10%	May reduce minimum open space requirements by up to 25%	May reduce minimum open space requirements by up to 50%
§9.17	Floor Area Ratio Bonus	1,000 SF additional floor area allowed per low-income unit capped at 50% FAR increase	2,000 SF additional floor area allowed per very low-income unit capped at 50% FAR increase	2,000 SF additional floor area allowed per extremely low-income unit capped at 50% FAR increase
§9.18	Height Bonus	1 story/10 feet	1 story/10 feet	1 story/10 feet
§9.21	Minimum Unit Size Reduction	10% for low-income units only	20% for very low-income units only	30% for extremely low-income units only
§9.22	Alternative Exterior Materials	50% of qualifying facades (not facing public streets)	75% of qualifying facades (not facing public streets)	100% of qualifying facades (not facing public streets)
§9.23	Storage Space Reduction	50% reduction	50% or 75% reduction when providing 20% of units at under 50% AMI	50%, 75%, or 90% reduction when providing 10% of units at under 30% AMI
§9.24	Landscaping Fee in Lieu Reduction	NA	100%	100%
§9.25	Development Fee Reimbursement	Sliding scale upon showing of demonstrated need	Sliding scale upon showing of demonstrated need	Sliding scale upon showing of demonstrated need

	Incentive	**Low Income (Capped at 60%)** 51% to 60% AMI	**Affordability Very Low Income** 31% to 50% AMI	Extremely Low Income at or Below 30% AMI
§9.26	Development Fee Deferments	Eligible for 12-month deferral with 9% qualifying units and 24 months with 20% qualifying units	Eligible for 12-month deferral with 9% qualifying units and 24 months with 20% qualifying units	Eligible for 12-month deferral with 9% qualifying units and 24 months with 20% qualifying units
§9.27	Expedited Review of Plans	NA	NA	Eligible
§9.28	Land Write Down	Potentially Eligible	Potentially Eligible	Potentially Eligible
§9.30	Housing TIF	Potentially Eligible	Potentially Eligible	Potentially Eligible

Parking Reduction

§ 9.19

Affordability provided:	***Projects located in the Designated Transit Area, Tier I:***	***Projects located in the Designated Transit Area, Tier II:***	***Projects located outside a Designated Transit Area:***
9% of units qualifying as very low or extremely low income	15%	10%	5%
20% of units qualifying as very low income	25%	20%	10%
50% of units qualifying as very low income or 20% of units qualifying as extremely low income	35%	30%	15%
100% of units qualifying as very low income or 50% of units qualifying as extremely low income	45%	40%	20%

Enclosed Parking Space Conversion

§ 9.20

Low Income (Capped at 60%) 51% to 60% AMI	**Affordability Very Low Income 31% to 50% AMI**	**Extremely Low Income at or Below 30% AMI**	**Extremely Low Income at or Below 30% AMI**
9% of its units qualifying as low-income affordable housing qualifies to convert 10%	9% of its units qualifying as very low-income affordable housing convert to 50%	9% of its units qualifying as extremely low-income affordable housing qualifies to covert 50%	20% of its units qualifying as extremely low-income affordable housing qualifies to convert 100%

CITY OF
BLOOMINGTON
MINNESOTA

DATE: January 26, 2024

TO: Port Authority Commission

FROM: Kenny Niemeyer, Housing Development Specialist

RE: Opportunity Housing Ordinance

Background
The Opportunity Housing Ordinance (OHO) is an inclusionary zoning policy designed to encourage mixed-income developments, affordable housing developments, and the preservation of existing affordable units while not causing undue constraint to the financial viability of housing developments.

History of Ordinance Creation
The formation of the OHO began in 2018 when the city contracted with BAE Urban Economics to conduct a Housing Nexus Study (Study available on the Bloomington OHO webpage). The in-depth study established that for every 100 market rate dwelling units developed in the City of Bloomington, a demand for 9 dwelling units affordable to households earning 60% of the area median income would be induced. The study also set a rate for the payment in lieu of developing affordable housing which is $9.60 per square foot of total residential dwelling square footage in a proposed development. Using these baselines set by the study, the city contracted with BAE Urban Economics and Daedalus to develop and conduct financial modeling for incentives to encourage housing development in the city while pushing developers to create additional affordable housing units so that the city achieves its goals related to the Metropolitan Council allocation of need for affordable housing. The City met extensively with housing developers and community stakeholders throughout this formational phase of the OHO to gather input, make revisions, and set expectations for the eventual implementation of the ordinance.

How it Works
With requirements and incentives established, the OHO was first adopted by City Council on February 25, 2019 with a six-month delay in going into effect to allow time for education and refinement. Following assessment during the six month period, the OHO was amended on August 5, 2019 and went into full effect in September 2019. Developers now have access to a variety of incentives which broadly fit into two categories: financial subsidy and development standard flexibility. Developers can access incentives by including a higher percentage of affordable dwelling units in their housing developments, and offering those units at deeper affordability levels including affordability at the 50% AMI and 30% AMI levels. Developers submit their request for incentives and affirmation of OHO requirements by completing an

affordable housing plan which is reviewed and negotiated with city staff during the development process and ultimately acted upon by the City Council.

Related Goals, Objectives, and Plans of the City

Since the OHO's full adoption, the City has seen direct outcomes toward meeting local and regional goals and objectives around affordable housing development.

- The City of Bloomington's Forward 2040 Comprehensive Plan and Housing Needs Analysis identified that 1,794 units of affordable housing (affordable to households earning 80% AMI or less) will be needed to meet demand from 2016 through 2030. Of the demand, 59% is for rental housing and 41% is for senior housing. Since the OHO's full adoption in 2019, the City has experienced a surge of housing development as well as positive feedback from developers on the efficacy of the ordinance.
- Bloomington. Tomorrow. Together. – the City of Bloomington's five-year strategic plan sets out three main priorities. A Connected, Welcoming Community; A Healthy Community; A Community with Equitable Economic Growth. The OHO requirements of housing developments work to ensure housing is dignified and welcoming, that people can feel stable and supported in their housing so they may have the capacity to improve outcomes for other needs in their life like health, and that opportunities to live in Bloomington are equitably distributed through the city.
- The Metropolitan Council forecasts future affordable housing needs using a regional economic model, then allocates a share of the overall need for new affordable housing units amongst metro communities. The table below shows the City of Bloomington's housing NEED allocation from Met Council for the 2021-2030 period (bottom row), and housing developments completed or under construction within that period.

Development	30% AMI	50% AMI	60% AMI	70-80% AMI	Market Rate	Total 30%-60%	TOTAL
Opened							
Hayden Grove – Senior (2021)		34			132	34	166
District (2021)		50			198	50	248
Blooming Meadows North (2021)	17		104		51	121	172
Lyndale Flats (2022)			81			81	81
Aire Apartments (2022)		35	11		183	46	229
Cadence (2022)	6	3	59			68	68
Carbon 31 (2023)			36		369	36	405
Risor – Senior (2023)			14		132	14	146
SUBTOTAL	**23**	**122**	**305**		**1,065**	**450**	**1,515**
Under Construction							
Noble Apartments		14			135	14	149
The Ardor					242		242
Oxboro Heights - Senior	9	23	43	50		75	125
SUBTOTAL	**9**	**37**	**43**	**50**	**377**	**89**	**516**
Opened or Under Construction	**32**	**159**	**348**	**50**	**1,442**	**539**	**2,031**
2030 GOALS	**445**	**246**	**151**		**1,453**	**842**	**2,300 NEW TBD NOAH**

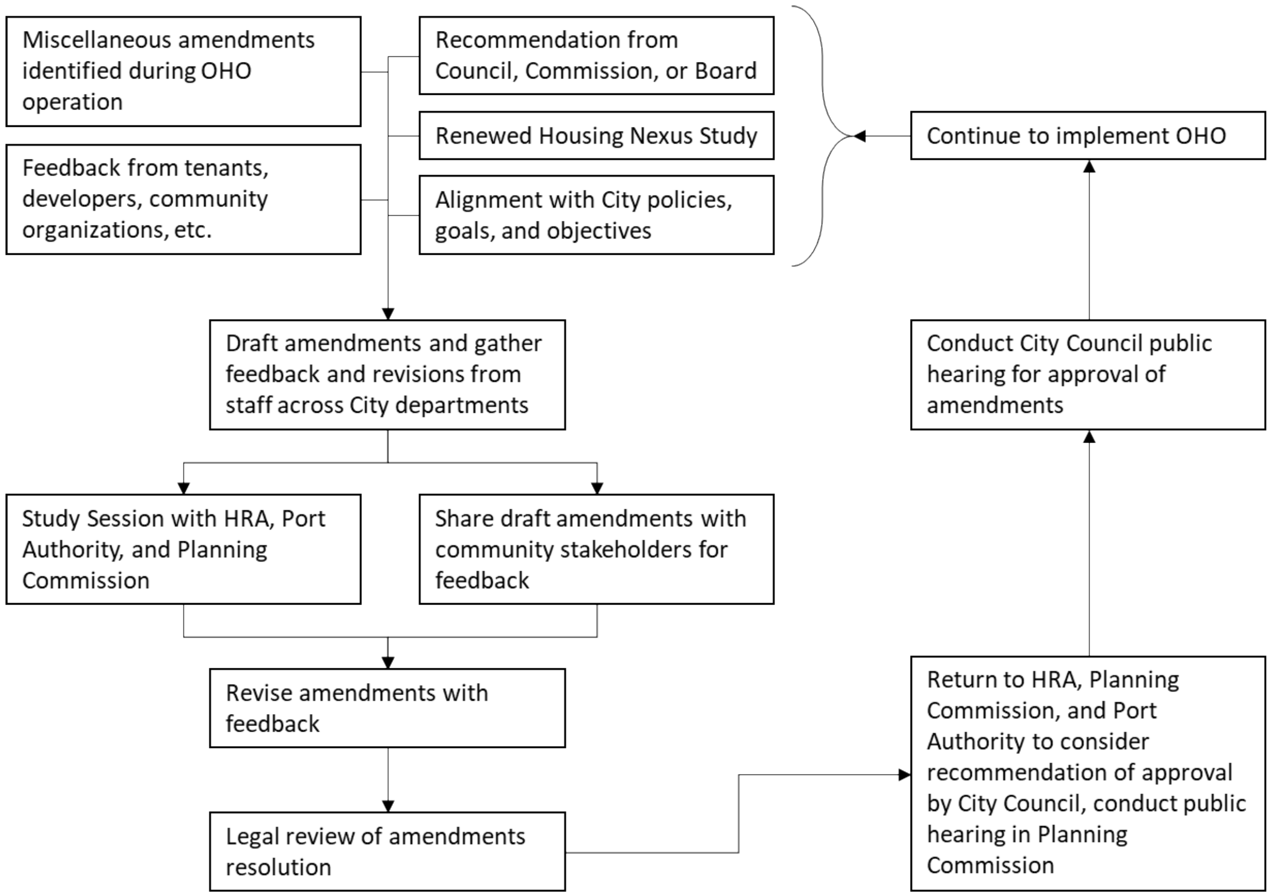
Roles of Port Authority Commission, Housing and Redevelopment Authority Board, and Planning Commission Regarding the Opportunity Housing Ordinance

In 2022, the Housing and Redevelopment Authority hired an independent consultant to conduct an organizational assessment that found the city should prioritize efforts of the HRA and Port Authority to different components of the housing development continuum; the HRA would focus on housing stability services and housing developments of 19 dwelling units and fewer while the Port Authority would focus on small business assistance and housing developments of 20 dwelling units and more. With the OHO's applicability to large multifamily developments, it was determined that the Port Authority would be the main entity for ongoing administration of the OHO, with the acknowledgment that all facets of Community Development are impacted by the OHO.

	Commission/Authority		
Responsibilities/Roles	Housing and Redevelopment Authority	Port Authority	Planning Commission
Review OHO ordinance amendments, make recommendation to the City Council	✓	✓	✓
Determine level and type of financial assistance	✓	✓	
Compliance and enforcement of OHO		✓	
Affordable Housing Trust Fund decisions	✓		
Review development applications, make recommendation to the City Council			✓
Ensure proposed affordable housing plans comply with OHO standards, make recommendation to the City Council			✓
Review OHO incentive requests for appropriateness, make recommendation to the City Council			✓

Update Process

The OHO continues to undergo amendments to stay relevant to economic conditions and adjust incentives as the city works toward its affordable housing goals and conducts renewed studies and planning initiatives. The Housing Nexus Study conducted in 2018 is reaching the end of its lifespan for relevance and staff are identifying funding to conduct a renewed study to inform the upcoming years of OHO implementation. The process for updates to the OHO is outlined below:


Miscellaneous amendments identified during OHO operation
Feedback from tenants, developers, community organizations, etc.
Recommendation from Council, Commission, or Board
Renewed Housing Nexus Study
Alignment with City policies, goals, and objectives
Continue to implement OHO
Draft amendments and gather feedback and revisions from staff across City departments
Conduct City Council public hearing for approval of amendments
Study Session with HRA, Port Authority, and Planning Commission
Share draft amendments with community stakeholders for feedback
Revise amendments with feedback
Return to HRA, Planning Commission, and Port Authority to consider recommendation of approval by City Council, conduct public hearing in Planning Commission
Legal review of amendments resolution

City of Plymouth

Special City Council
February 11, 2025
Agenda Number: 2.2

To:	Dave Callister, City Manager
Prepared by:	Jodi Gallup, City Clerk
Reviewed by:	Maria Solano, Deputy City Manager
Item:	**Set future study sessions**

1. Action Requested:
Schedule study sessions and/or add topics as desired. The calendar for the next three months is attached to assist with scheduling.

2. Background:
Pending study session topics (at least three council members have approved the following study items on the list):

- Affordable housing trust fund discussion; Date: TBD

Staff requests for meeting topics and/or changes:

- Schedule 2026 budget preview discussion on March 13 at 6 p.m.
- Schedule annual training on ethics, code of conduct, conflict of interest, open meeting law and review related council policies on March 25 at 5 p.m.
- Schedule yard waste site management discussion on April 8 at 5 p.m.

3. Budget Impact:
N/A

4. Attachments:
1. Calendars

City of Plymouth February 2025

SUN	MON	TUES	WED	THUR	FRI	SAT
						1
2	3	4	5 5:30 PM SPECIAL PLANNING COMMISSION MEETING Council Chambers 7:00 PM PLANNING COMMISSION MEETING Council Chambers	6 5:00 PM COUNCIL STRATEGIC WORKSHOP Plymouth Community Center Cedar Room	7 10:00 AM COUNCIL STRATEGIC WORKSHOP Plymouth Community Center Cedar Room	8
9	10	11 5:00 PM SPECIAL COUNCIL MEETING Inclusionary housing policy update Public Safety Training Room 7:00 PM REGULAR COUNCIL MEETING Council Chambers	12 7:00 PM ENVIRONMENTAL QUALITY COMMITTEE MEETING Council Chambers	13 6:00 PM PARK & REC ADVISORY COMMISSION MEETING Council Chambers	14	15
16	17 PRESIDENTS DAY CITY OFFICES CLOSED	18	19 7:00 PM PLANNING COMMISSION MEETING Council Chambers	20	21	22
23	24	25 5:30 PM SPECIAL COUNCIL MEETING Voluntary Advisory Board Recognition Event City Hall Lobby 7:00 PM REGULAR COUNCIL MEETING Council Chambers	26	27 7:00 PM HOUSING AND REDEVELOPMENT AUTHORITY MEETING Council Chambers	28	

March 2025

SUN	MON	TUES	WED	THUR	FRI	SAT
						1
2	3	4	5 7:00 PM PLANNING COMMISSION MEETING Council Chambers	6	7	8
9	10	11	12 7:00 PM ENVIRONMENTAL QUALITY COMMITTEE MEETING Medicine Lake Room	13 6:00 PM PARK & REC ADVISORY COMMISSION MEETING 7:00 PM REGULAR COUNCIL MEETING Council Chambers	14	15
16	17	18	19 7:00 PM PLANNING COMMISSION MEETING Council Chambers	20	21	22
23 / 30	24 / 31	25 7:00 PM REGULAR COUNCIL MEETING Council Chambers	26	27 7:00 PM HOUSING AND REDEVELOPMENT AUTHORITY MEETING Council Chambers	28	29

City of Plymouth

April 2025

SUN	MON	TUES	WED	THUR	FRI	SAT
		1	2 7:00 PM PLANNING COMMISSION MEETING Council Chambers	3	4	5
6	7	8 7:00 PM REGULAR COUNCIL MEETING Council Chambers	9 7:00 PM ENVIRONMENTAL QUALITY COMMITTEE MEETING Medicine Lake Room	10	11	12
13	14	15	16 7:00 PM PLANNING COMMISSION MEETING Council Chambers	17	18	19
20	21	22 7:00 PM REGULAR COUNCIL MEETING Council Chambers	23 10:00 AM DESTINATION MARKETING ORGANIZATION ADVISORY BOARD MEETING Medicine Lake Room	24 7:00 PM HOUSING AND REDEVELOPMENT AUTHORITY MEETING Council Chambers	25	26
27	28	29	30			