

Affordable Housing For The Region

Strategies For Building
Strong Communities

A Report Of The
Mayors' Regional Housing Task Force
November, 2000



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The Task Force invites comments on this report. Comments can be made via the Metropolitan Council's web site, at www.metrocouncil.org, or by mailing them to: Elizabeth Ryan, Director of Housing and Livable Communities, Metropolitan Council, 230 East Fifth Street, Saint Paul, Minnesota 55101.

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Resolution

As Mayors of a diverse set of metropolitan area communities, we recognize that all communities need quality housing for people at all income levels and ages. In order for the Twin Cities metropolitan region to grow economically, more affordable housing is needed to complement the growing job opportunities in all parts of the region. Businesses need access to workers, and workers need housing they can afford. A varied price range of quality housing is an asset to our communities: it reinforces families by creating stable environments in which children can learn and feel secure, promotes attachment to community by providing housing for all stages of life, and lends richness to community life through variety and balance. Yet many people, including our young adult children and senior citizens, cannot afford to live in their home towns, nor can many workers afford to live near their jobs.

The availability of quality housing and dignified living conditions for people at all stages of life and income levels is imperative to our region's continued success. Therefore, we will work to increase housing choice in all communities. We will do so in a manner that enhances the livability of communities and neighborhoods. We will create partnerships and explore opportunities that create housing choice without relying solely on scarce public resources. We call upon the broader community, including the financial community, developers, businesses, all levels of government and nonprofits, to assist us with our effort to build a high quality of life and economic prosperity in the Twin Cities region, by joining in implementing our recommendations to:

- Provide Leadership
- Ensure That Local Planning And Zoning Enables Affordable Housing
- Change Government Policies And Practices To Reduce The Cost Of Building Housing
- Secure Additional Funding
- Invest In Skill-building And Expertise, and
- Develop A Support Structure For Those In Need Of Services

What We Mean By Affordable Housing

I. Introduction

We use the term “affordable housing” throughout this report. Our meaning is simple: *the availability of quality housing and dignified living conditions for people of all incomes and at all stages of life.* Affordable housing is not a separate class or type of housing that makes it different from ordinary housing. *It is* ordinary housing: roughly half of home owners in the Twin Cities live in “affordable” housing. But the housing being produced in the market place is less and less affordable to ordinary people—people who live in and contribute to our communities. Because affordable housing is linked to the health of our communities, a mix of housing for people of all incomes is essential to the continued prosperity of our cities and the metropolitan region. Some of the more compelling reasons for ensuring a mix of housing are:

Academic Performance of Children. Education has been called the greatest economic resource of today. Academic achievement improves when children have stable housing. In a recent study, average reading scores for children who moved three or more times during the year were almost 20% lower than those of children who did not move.¹ In another study, eighty percent of homeless children scored in the bottom quartile of an achievement test for academic performance.²

Strong Economy. Businesses need workers, and workers need places to live. There are more and more examples of business relocations from areas without sufficient housing for workers to areas with such housing.

City Fiscal Strength. Preliminary results from a study currently being conducted by the Metropolitan Council suggest that cities can meet their affordable housing goals and experience positive fiscal outcomes.

Strong Communities. Our cities should be places where people can live their entire lives if they choose, developing social attachments which promote strong neighborhoods and civic involvement. This is disrupted when young adults, senior citizens and those serving our communities such as teachers, police officers, receptionists, nursing aides and travel agents, are priced out of the housing market. The chart shown in Attachment A shows how difficult it is for workers in many occupations to afford housing.

¹ The Kids Mobility Project, 1998.

² Quoted in Family Housing Fund, 1999.

Congestion. Lack of affordable housing near the work place contributes to traffic congestion. In 1970, the average trip distance from home to work in the metropolitan area was 6.6 miles; this had increased in 9.2 miles by 1990. Congestion on metropolitan freeways rose from 25% of total freeway miles in 1990 to 50% in 1997.

Opportunity. Some people face difficult life transitions, such as welfare to work, or homelessness. Without stable housing, it is virtually impossible for them to succeed at their transition to economically secure and self-sufficient lives. Because of the lack of affordable housing, family homelessness has increased dramatically. A 1997 survey of homeless people found that 34% were working; 19% had full time jobs.³

In short, a mix of housing is fundamental to the quality of life in our cities.

What We Do Not Mean By Affordable Housing

Unfortunately, affordable housing has come to have many different, often negative, connotations. A stereotype of “affordable housing” has developed, based on failed public housing developments of the past. In the worst scenarios, affordable housing has become a synonym for inept government programs, poorly maintained housing, social decay and crime. We reject this view of affordable housing. When we speak on these pages of affordable housing, we mean the availability of quality housing and dignified living conditions for people of all income levels, at all stages of life. We also mean housing that fits well into its neighborhood.

The Charge To The Task Force

The charge to the task force was to identify ways of increasing the supply of affordable housing. We examined a number of supply side factors such as fees and regulations, the availability of land, and the provision of producer subsidies. We also looked at no-cost items that restrict the supply of lower priced housing, such as lack of public support. The demand side of the housing equation is equally important. However, solutions on the demand side (as functions of income and demographics) tend to be difficult to address at the local level.

³ Quoted in *Findings*, Wilder Research Center, 2000.

II. Why Focus On Affordable Housing

The need for more reasonably-priced housing has ballooned. The Metropolitan Council estimates that at least one in five of all regional households lives in homes that are not affordable to them— that is, they are forced to pay more for housing than they can reasonably afford. An estimated 161,000 households in the Twin Cities pay half or more of their income for housing and/or live in substandard housing conditions. Of these, 46,000 are moderate income working families, 72% of whom live in the suburbs. Another 53,000 households are elderly or marginally employed.⁴

Housing prices in metropolitan areas throughout the country continue to rise at a pace that makes housing costs increasingly burdensome for households of modest or low incomes. During the first three months of 2000, average rents in the Twin Cities metropolitan area increased to \$742 a month, an 11.5% increase over the same period in 1999.⁵ The median price of closed home sales in the Twin Cities metropolitan area reached \$145,000 in May of 2000, an increase of 10.8% from May of 1999.

In comparison, the Family Housing Fund points out that ownership of even a modest three bedroom home priced at \$113,000 is out of reach for households with a single wage earner employed in a job such as a school bus driver, receptionist, or bank teller. The average rent for a two bedroom apartment (at \$822 a month for a two bedroom apartment in 2000) also exceeds affordability limits for workers employed in such jobs.

The housing market is being driven by our strong economy. The Twin Cities has benefited tremendously from this, but the strong economy pushes up housing demand as well as production costs. Both have the impact of increasing the price of housing. On the demand side, higher incomes, a growing population and lower interest rates push up the price, size and quality of housing being built. Per capita income in the metropolitan area in 1998 was 123% of the national average, the fifth highest metropolitan area in the country. Growing population and smaller household sizes also increase pressure on the housing market: it is estimated that the number of households in our region will grow by

⁴ Stegman, Quercia and McCarthy, 2000.

⁵ Pioneer Press, June 13, 2000.

270,000 between 2000 and 2020, all of which will need housing.

Consumer expectations have changed. Nationally, the median size new home built in 1998 was 44% larger than the median size new home in 1970. The proportion of new homes with two or more baths increased by 94%, with four or more bedrooms by 37%, while those with fireplaces increased by 74% and air conditioning by 144%.

On the supply side, the strong economy tightens the labor market, which increases construction costs, and creates bidding wars for land, which pushes up the price for land. In the ownership market, this can lead to bigger and more expensive homes. In the rental market, these forces have led to a decrease in production in multifamily housing: permits fell from 6,160 per year in the 1970s and 1980s to 1,010 units per year in the 1990s.⁶ The resulting vacancy rate today is 2%, among the lowest in the nation. A five percent vacancy rate is considered a healthy market.

Low vacancy rates drive up rents. They have also created a situation where an estimated \$14 million of Section 8 housing choice vouchers are going unused each year. Section 8 vouchers are a “demand side” solution to affordable housing, because they supplement a renter’s income. However, the supply of rental housing is so low, landlords can find renters to occupy all of their rental units without having to accept Section 8 vouchers. Renters who use Section 8 vouchers are being turned away, and these same renters are forced to rent their housing without the aid of the vouchers. This places a tremendous burden on the household budget, which in extreme cases leads to choices between paying for medicine or rent (an estimated one-third of those eligible for Section 8 are elderly), or to homelessness when rent payments become too expensive (women and children are the fastest growing segment of the homeless population).

⁶ Maxfield Research Inc., 2000.

III. Findings

Affordable Housing Can And Must Be Synonymous With Quality Housing

Our goal with affordable housing is to strengthen our communities. We want to build strong neighborhoods. This can be achieved by ensuring that those who wish to live in our communities can afford to do so. We must not accept solutions for affordability that produce cheap, poorly designed housing that quickly deteriorates, impoverishing both its inhabitants and the neighborhood. Quality housing in our view is housing that is: 1) long-lasting; 2) indistinguishable from neighboring market rate housing; 3) designed to fit the neighborhood context; and 4) well-maintained and managed. There are many fine examples of such affordable housing being produced in the Twin Cities today. We do not believe that cutting corners on construction, design and management is the way to produce strong neighborhoods.

Mixed Income Developments Offer A Preferred Alternative For Providing Affordable Housing

We have learned from past mistakes about the great harm that results when the poor are isolated in pockets of poverty within neighborhoods. While mixed income developments have yet to be fully embraced by the marketplace, we conclude that the best way to provide housing for people of all incomes is in mixed unit developments. Older neighborhoods, with their mix of large and small homes interspersed with small apartment buildings, are a testimony to the success of this approach. This can be achieved today by developing a mix of housing in large scale developments, such as West Ridge in Minnetonka, by mixed income buildings like Creamette rental apartments in Minneapolis, or by scattered site ownership housing such as that built by Habitat for Humanity throughout the Twin Cities.

Higher Densities Are Necessary To Increase The Supply Of Affordable Housing

The availability of land and how it is zoned affect the supply of affordable housing. First, more compact development can reduce the per unit cost of housing. For example, a study by the Builders Association of the Twin Cities (BATC) which examined four metro area cities showed

that increasing density to 4.8 units per acre saved between \$2,000 a unit in infrastructure costs (where the existing density was 3.5 units/acre) to nearly \$10,000 a unit (where the existing density was 1.6 units/acre).⁷ Second, land use restrictions such as large lot sizes or lack of zoning for rental properties, limit opportunities to build affordable housing. Scarcity of land can result, which may force prices up. Third, we believe that the health of our cities and region is tied to a mix of housing, for the young, the elderly, workers, single people and families. With growing populations, this can only be achieved with more compact growth.

Opponents of higher density housing associate it with unattractive or incompatible development, or with environmental degradation. We have reviewed examples of new models of affordable housing, which focus on integrating affordable housing into the neighborhood through sensitive design and by using mixed income, rather than exclusionary, development. We conclude that there need not be a trade-off between density and good design; there are many examples of well-designed and attractive higher density properties. Likewise, there need not be a trade-off between environmental protection and higher density. An emphasis on good design will result in affordable housing that is attractive and compatible with the neighborhood and sympathetic to the natural environment.

A counter argument to higher density developments would be to make land more readily available and therefore less costly. We reviewed a number of studies on the impact on urban growth restrictions on the price of land and the supply of affordable housing and found the available evidence to be inconclusive. First, while restrictions on land supply do generally act to increase the cost of land, other factors, such as income and location, interact with land supply to determine the ultimate price. Second, it is not clear what impact the Twin Cities' metropolitan urban service area (MUSA) boundary has on land prices, since this line is set by cities to guide growth, not contain it. Third, our goal is to accomplish housing choice in all cities, and it is debatable whether relaxing the MUSA boundary would provide an effective solution to the provision of affordable housing in any cities except those on the urban edge. Fourth, compact growth saves agricultural lands and allows farm production to take place closer to the markets, saving fuel and time.

⁷ Builders Association of the Twin Cities, 2000. Densities are net densities calculated by dividing the number of housing units by the total acreage of the site minus stormwater treatment areas.

We support the approach of the Metropolitan Council's Regional Growth Strategy, which aims at using land more efficiently and cost-effectively. The strategy underscores the importance of linking new affordable and life cycle housing with existing and growing employment opportunities, with existing and planned transit service and with the availability of retail and personal services. We believe that this type of growth will build strong individual communities as well as a prosperous region.

Most Affordable Housing Will Not Be Produced In The Marketplace Without Incentives

In all markets, there is an “equilibrium” price for products below which a product, like housing, will not be produced. Strong demand and increasing production costs push up equilibrium prices. Supply below the equilibrium price is not produced. Demand below the equilibrium price is not satisfied. While this is not problematic for the vast majority of products, it becomes a serious problem when the good is a basic need, like housing.

Of course, the housing market is very complex, offering multiple products in a multitude of locations, and it is highly influenced by government policies ranging from federal tax law to local land use decisions. The cost of housing can be reduced, and we recommend a number of policy changes which would enable the marketplace to make housing more affordable. Given the great need for affordable housing, we must enable the marketplace to produce as much affordable housing as possible. But it is important to stress that these cost reductions, as important as they may be, will never be sizable enough to fully eliminate the need for subsidies to produce affordable housing for all income levels.

Developers who spoke to the task force confirmed that most affordable housing will require financial assistance. The strong demand for higher priced homes provides developers with ample opportunity to make a profit⁸ without the complications typically associated with producing affordable housing, such as complex financing arrangements and political opposition. In thinking about the need for financial incentives

⁸ Estimated to be 9.2% of the sales price of single family homes in the U.S., in *The Truth About Regulatory Barriers to Housing Affordability*, National Association of Home Builders.

to develop affordable housing, we must recognize that through the federal mortgage interest deduction and/or the property tax structure, virtually every homeowner in Minnesota receives a subsidy for their housing, making it more affordable.

Funding Partnerships Are Needed

To produce housing for all income levels, subsidies are needed. The Minnesota Housing Finance Agency estimates that it would cost \$500 million a year to alleviate the housing cost burden for those paying more than 30% of their incomes on housing. For example, in the fall of 2000, the Minnesota Housing Finance Agency is helping finance 275 units of affordable rental housing. On average, these units rent for \$735 a month and are affordable to households at 46% of median income. Private financing only supports 24% of the development costs of these units. The average financing gap is \$103,000, of which \$65,000 is filled with tax credits and \$38,000 with deferred grants or loans.

The enormous amount of money needed means that no single sector or government jurisdiction can do it on their own. The public, the private and non-profit sectors all must contribute. Local, state and federal governments all must contribute.

We remain concerned about long term affordability. Given the substantial investment of public dollars to make new rental properties and some ownership homes affordable, it is important to find mechanisms of ensuring that these properties remain affordable for long periods of time. Public investments in housing should be able to be recaptured and reinvested if there are capital gains when the housing is sold. There are models of achieving long term affordability, such as covenants, deed restrictions and land trusts. However, these are complicated and difficult to bring about, especially if the properties are owned instead of rented. Partnerships can help explore and test new models for long term affordability.

The Effective Solution Will Be A Regional Solution

We are a regional economy. Effective solutions to affordable housing recognize that fact. The city that restricts the supply of affordable

housing restricts the supply for the entire region, drives up prices in the regional housing market, or forces other cities to build a disproportionate share of such housing. If cities of our region cannot supply enough housing for workers, we may start to find that businesses leave to areas where such housing is more readily available. Cities that restrict the supply of affordable housing foster sprawl, increasing pollution and traffic congestion that harms the livability of our entire metro area.

Most cities in our region recognize the importance of providing affordable housing in their communities. In 1998, 101 of 143 metropolitan cities chose to participate in the Livable Communities Act program. These cities established goals that collectively would add 68,553 affordable ownership homes and 12,885 affordable rental homes by the year 2010. These efforts should be recognized and rewarded with financial incentives that help produce and retain affordable housing.

We endorse the Metropolitan Council's role and approach in encouraging cities to cooperate in building a strong regional housing market, not through mandatory rules and regulations, but through planning and financial incentives. Empirical evidence suggests that in regions with a multitude of local governments, competition between cities suppresses local government spending on housing, whereas intergovernmental incentives positively influence local spending for affordable housing.⁹ Experience with the Livable Communities Act seems consistent with these results. Therefore we are supportive of the current approach to affordable housing. However, it should be strengthened by using cities' progress in building affordable housing as a criterion for the distribution of other financial assistance provided through the Metropolitan Council and state agencies, such as transportation funding and pollution clean up. Cities' past efforts in building affordable housing should be credited when making these funding decisions.

Cities Should Have The Flexibility To Customize Their Affordable Housing Strategies

Cities should have the flexibility to customize their affordable housing strategies, provided that the strategies supply quality housing for people

⁹ Basolo, 1999.

of all income levels and at all stages of life, and that they conform to the metropolitan Regional Growth Strategy. The cities in the metropolitan area vary considerably, and each has different needs and opportunities. Cities differ, for example, by the size and make up of their population, economic base, stage of development, and natural environments. Cities' needs for affordable housing will differ accordingly.

Flexible strategies require flexible resources. A report of The Center for Housing Policy calls on the federal government to provide a “menu of flexible housing resources”¹⁰ which will enable localities to customize their own affordable housing strategies. We concur with this, and believe that flexibility should be a principle for the use of state and metropolitan resources as well. Flexibility will help ensure that we are building affordable housing and strong communities.

Cities Need Technical Assistance

For years the federal government played the primary role in financing affordable housing, using a combination of federal programs and federal tax incentives. This has changed. Federal funding once supported the production of more than 500,000 additional housing units a year (in 1976) through direct appropriations to the Department of Housing and Urban Development. Today the primary emphasis of direct appropriations is not on production, but on supplementing the incomes of poorer households so that they can afford housing. In addition, the reach of federal tax incentives aimed at spurring the production of affordable housing was curtailed in 1986. The overall result from these changes at the federal level is a shift in responsibility to non-profits and local governments.

The impact of this shift in responsibility is enormous. Housing production is expensive, time-consuming and complex. Housing finance is an arcane and extremely complicated field. New housing products aimed at increasing the supply of affordable housing, such as mixed income developments and land trusts, require painstaking attention and care. Quality design and the accomplishment of multiple objectives, such as higher density and environmental protection, are arts as well as sciences. Community involvement and support are also a mandatory part of the housing development process today.

¹⁰ Stegman, Quercia and McCarthy, 2000.

Another emerging area of responsibility for cities is their role in setting expectations for and facilitating sound property management. Skilled property management and maintenance are critically important to the quality of any residential property. Some aspects of good property management unfold with the operation of the property, such as careful tenant screening, and ensuring that human and social services are readily accessible to tenants who may require them. Others are set in place with the development of the property, such as design that deters crime, or the establishment of proper reserve levels to ensure that funds are available for the maintenance of rental properties or property held in common through homeowners' associations. Cities can play an important role in setting the stage for good property management through their involvement in the development process and through ordinances that encourage good management practices.

In many cases, cities have neither the staff nor the expertise to negotiate and guide housing developments successfully through complicated financial structures and development agreements. In other cases, such as ensuring that properties are well managed, cities are taking on new roles. If every affordable housing development represents a new learning curve, progress will indeed be slow. Cities throughout the state need assistance and tools that share lessons learned and available expertise. Likewise, apartment managers and owners, developers and home builders could potentially benefit from programs designed to improve skills in producing and managing affordable housing.

The good news is that many fine resources exist. But cities would benefit greatly if there were “one-stop shopping” for guidebooks and information, training workshops, educational seminars, and forums. There is also much to be learned by sharing local experiences with one another. We concur with the U.S. Conference of Mayors' emphasis on educational and policy summits (see Attachment B) and believe that such action should be formalized here in Minnesota.

Human And Social Services

Play A Limited But Important Role

For some people, a decent place to live is an important part of improving their life circumstances, but they also have other issues that must be addressed. Good housing must be supplemented with human and social services as needed. The types of services vary, and can range from day care, parenting skills, job training and referral, housekeeping skills, budgeting and literacy programs. It is critical that a menu of services be readily accessible to residents. Landlords are not in the business of providing such services, nor should they be. They should recognize, however, that the availability of services will improve the integrity of the housing for all who live there. Landlords should act as facilitators, enabling service providers to identify and serve residents' needs. Human and social services providers should package their services to tailor them to the needs of residents and to improve accessibility.

Another issue is one of problem tenants. Tenants who have been evicted need help to correct their problem behaviors, so that they will have decent places to live and so that rental properties are not disrupted by their behavior in the future. Emerging efforts in this area need to be supported by tenant services, landlords, the legal community and nonprofit service providers.

IV. Recommendations

Provide Leadership Local officials must be “ambassadors” for affordable housing. We must work hard at ensuring that more affordable housing is provided, just as we work hard at ensuring that jobs, schools and parks are provided. Worn myths, such as “affordable housing destroys property values” must be overcome. For example, a recent study by the Family Housing Fund found little or no evidence that tax-credit rental housing erodes surrounding home values.¹¹ We must welcome rental properties as a key component of housing choice in our cities. We must spread the word that affordable housing means housing for teachers, police officers, receptionists, nursing aides and travel agents, and the many others who serve and contribute to our communities.

The lack of affordable housing for workers has become a major issue for the business community. The Minnesota Chamber of Commerce, for example, has established its own task force on affordable housing. The business community can show leadership by speaking out for affordable housing and letting citizens and political leaders know that affordable housing is an important economic issue.

The business community can also be effective at the local level. Far too often, affordable housing developments lose by a narrow one vote margin in city council chambers, because there is no one there to speak in favor of the development. The presence of the business community would send a strong signal about the economic importance of affordable housing. We know from experience that the presence of local business leaders has a positive effect on the outcome of local affordable housing decisions.

Local faith communities have an important role. In many cities, faith-based organizations have been instrumental in bringing communities together around the issue of affordable housing, promoting an understanding of affordable housing, and working with residents to resolve concerns. Other faith-based organizations help produce affordable housing. We welcome and encourage the continued support and leadership of faith-based organizations.

¹¹ Family Housing Fund, 2000b.

The task force will:

- Encourage mayors to take leadership roles in national organizations, such as the League of Cities and the U.S. Conference of Mayors, to promote efforts related to affordable housing. A current opportunity is the five-point plan developed in partnership between the U.S. Conference of Mayors and the Mortgage Bankers Association. Information about this plan can be found in Attachment B.

- Endorse the Housing Minnesota Campaign and encourage cities to participate.

- Meet with the editorial boards of the two metropolitan newspapers. A press packet will be developed for suburban mayors to use with their local newspapers.

- Co-sponsor a briefing session for the Minnesota congressional delegation and staff, addressing the need for affordable housing in Minnesota and the importance of federal programs. (Possible partners are Fannie Mae, the Minnesota Chamber of Commerce, the Metropolitan Council, the Family Housing Fund, the Minnesota Housing Finance Agency, the Minnesota Chapter of the National Association of Housing and Redevelopment Officials, the Association of Metropolitan Municipalities, the Minnesota Association of Local Housing Finance Agencies, and faith-based organizations such as MICAH and ISAIAH.)

- Develop and pilot a fact sheet for task force members' city councils. The information would include: city-specific new census data about the demographics of those already living in each city (as a means of suggesting the types of housing needed), responses to questions such as the impact on property values, and the impact on cities if affordable housing is not built (studies of the Family Housing Fund), and regional information on projected population and job growth.

The task force encourages cities to:

- Engage in a process that assesses the needs and opportunities for affordable housing (see for example, Burnsville’s “Housing White Paper”) and develop a customized strategy for building affordable housing.
- Work jointly with one another, to raise visibility and support for affordable housing.
- Engage residents in meaningful planning processes, well before a vote is needed on specific developments.

The task force encourages the business, faith-based and non-profit communities to:

- Become more actively involved in supporting the development and management of affordable housing in their communities, and in reaching out to residents to address their concerns.

Ensure That Local Planning And Zoning Enables Affordable Housing

Cities designate land use, establish zoning ordinances and impose permit and development fees. We heard evidence and agree that certain local requirements (such as large minimum lot and house sizes, setbacks and street widths) reduce density and thereby increase the cost of a lot and the home that must be built on that lot to cover the cost of the land. Lower densities may also contribute to high infrastructure costs, as described above. However, we doubt whether smaller lots, in and of themselves, produce smaller homes or affordable housing. Sometimes developers/home builders simply build large houses on smaller lots.

We also found evidence that some cities’ zoning regulations are inconsistent with their land use plans—it is not possible to achieve the densities stated in their land use plans when zoning and subdivision regulations are applied. A study of four growth cities by the Builders Association of the Twin Cities revealed that the density goals for two cities were not achievable under existing zoning and subdivision requirements. (The other two cities did not have stated goals.) In one of the cities, for example, the comprehensive plan called for a development

goal of 4.9 units per acre. When zoning regulations such as setbacks and street widths are applied to the design of a development, only 2.1 units per acre could actually be achieved. To fulfill Land Planning Act requirements, and to be true to the housing and land use goals cities adopt in their comprehensive plans, cities must make their zoning ordinances consistent with their comprehensive plans, including the densities for residential development called for in their plans. The densities at which land is guided for development must be achievable in the zoning ordinance.

Efforts by cities would be strengthened or hastened considerably if complemented by efforts of other jurisdictions and organizations, as recommended below.

The task force encourages cities to:

- Work with the Metropolitan Council through the Association of Metropolitan Municipalities to jointly develop a survey of local governments in the urban service area to gather baseline information pertaining to communities' zoning and subdivision regulations. The survey would take place once cities have had the opportunity to revise their ordinances to make them consistent with their updated local comprehensive plans. We ask that this survey be conducted in 2001 and that the results be reported to all cities and the broader community.
- Ensure that local zoning and subdivision regulations make it possible to achieve the affordable housing and density goals set forth in land use plans. The Metropolitan Land Planning Act requires this. We recommend that cities self-monitor their progress in achieving their stated goals, and report the results publicly to citizens and to the Metropolitan Council.
- Establish higher densities, but ensure that the higher densities help cities achieve their affordable housing goals. We encourage cities to develop standards and guidelines for residential development that is more compact and that produces housing which is high quality, attractive, and at least 20% affordable.

- Adopt and use flexible land use regulation practices such as adjustable requirements, zoning overlays and special zoning districts. Such practices can promote the production of quality affordable housing by enabling more compact growth and fostering design solutions to meet residents' concerns and to ensure that a development fits well into the neighborhood. Flexible practices can also help create or enhance a town center or central destination by encouraging mixed-used developments which include an affordable housing component.
- Adopt new standards for the widths and design of streets (see Attachment C.)

The task force requests the State Legislature to:

- Revise state law to make it easier for local governments to rezone land, by eliminating the supermajority requirement and veto power by adjacent landowners in cities of the first class. We recognize this is a sensitive issue but believe that it is important to begin discussions about the repercussions of this law for residential development and the future course of our metropolitan area.

Change Government Policies And Practices To Reduce The Cost Of Building Housing

Development fees. Our review suggests that some local practices may add to the cost of housing. This is supported by the work of others who have examined affordable housing production. Some of these practices have been identified with firm evidence; others are more anecdotal in nature.

We found that development-related fees vary considerably from community to community. Although fees can add several thousand dollars to the cost of housing, it is not clear that fees keep housing from being “affordable.” However, for families on the margins of being able to afford a house, the fees can make a difference. The BATC study, for example, suggested that a \$10,000 increase in the price of a home puts the house out of reach for 40,000 families.

We focus our recommendations on avoiding unnecessary fee-related costs, noting that requirements across different levels of government may be duplicative, that there is at least anecdotal evidence that some cities set fees above the costs they are incurring, and that some items funded by fees, such as parks and trails, would perhaps be better funded by an alternative financing source. However, in order for serious progress to be made in this area, there needs to be developed a body of evidence that goes beyond anecdotal. A survey of municipal fees by The Association of Metropolitan Municipalities shows that fee structures vary widely, and one might conclude that the higher end fees are excessive. In one city, water connection fees were extremely high—a cost that adds to the cost of building housing. However, the connection fee was offset by lower ongoing water service fees to the home owner. Without further study providing a truer comparison of municipal fees, cities will not have the information they need to set fees that are fair and reasonable.

Property taxes. While property taxes are not a production cost per se, they are capitalized into the cost of providing rental housing. The effective tax rate for rental properties is at 3.2% for the year 2000, compared to an effective tax rate for homesteaded properties of 1.4%. If rental properties paid at the same rate as homesteaded properties, their tax burden would decrease by \$138 million in the year 2000. The property tax burden has an impact on the production of rental units: it has been estimated that it reduces the amount of mortgage that can be supported by \$6,700 to \$11,300 per unit.

Compact growth. We also found that more compact growth can help reduce the per unit cost of housing. Recommendations related to achieving higher densities are provided in the section above.

The task force will:

- Support efforts to reduce the class rate for rental properties, provided that the loss of revenues is compensated in some manner (for example, through the state's 1% for affordable housing recommended below), and that incentives are created for the production of affordable rental housing. If these

provisions are not met, homeowners and businesses will bear a greater property tax burden with no gain in affordable housing.

- Support efforts to reduce the property tax as a source of funding for education, as a means of reducing property taxes for all housing.

The task force encourages cities to:

- Review their development and permit fee systems, to ensure that they are fair and equitable for all residential development, that the fees are commensurate with benefits received, and that the fees are no greater than the cost of the services provided.
- Ensure that their internal plan check processes are timely, consistent, and do not result in last minute costly changes to building construction.
- Waive fees for affordable housing developments whenever possible.

The task force requests:

- The Metropolitan Council and the Association of Metropolitan Municipalities to jointly commission a study of the impact of municipal fees on affordable housing. This study should involve representatives from cities and home builders, and should identify and focus on those fees which have the greatest potential impact on affordable housing. We ask for this study to be completed by March 1, 2001.
- The Department of Administration to ensure that the building code process in Minnesota has the capacity to quickly utilize new proven technologies that reduce the cost of housing construction.
- The League of Minnesota Cities to convene state and local officials to ensure that codes are applied consistently across jurisdictions.

Secure Additional Funding **A**s described above, reducing the cost of housing helps make it relatively more affordable, but cost reductions will not ensure that housing is available for people at all income levels. Substantial sums of money are needed to ensure that all residents of the metropolitan area have access to affordable quality housing.

We strongly believe that property taxes as a source of funding for affordable housing subsidies are *not* the solution. We support the decrease in property tax class rates for rental units, with qualifications, because rental properties should not be more burdened with property taxes more than ownership housing. However, property taxes, as the source of funding for city services, are strapped. Raising property taxes (as a source of funding) makes housing generally less affordable.

Cities have been diligent about using local financing sources to fund affordable housing. Since the Metropolitan Council began gathering data under the Livable Communities Act (LCA), cities participating in the livable communities program have always spent more local funds on affordable housing than is required by the Act. This should continue, but must be complemented with strengthened commitments from other levels of government.

Federal appropriations for housing fell from \$93 billion in 1978 to \$26 billion in 1999. The switch to reliance on federal housing tax credits and private activity bonds has not compensated for this reduced level of spending; neither have been increased for inflation, and therefore these sources are worth a third less today than when they were first instituted in 1986. State appropriations today, of \$124 million for the current biennium, are at their highest level ever, although the appropriation pattern followed that of the federal government during the 1980s, with a sharp decline and low levels of spending throughout the 1980s. The Inclusionary Housing Account of the Livable Communities Act has been highly successful in helping fill the financing gap for a number of mixed income housing developments. However, its one-time appropriation of four million dollars is depleted.

We call on all levels of government to work with cities to make affordable housing possible. We also look to the private and nonprofit sectors to join with us in funding affordable housing.

Finally, we must make better use of existing resources. Of concern is that at least \$14 million a year of Section 8 funding is currently going unused. Use of these housing choice vouchers could help existing renters better afford their housing. In particular, an estimated one-third of those who use Section 8 vouchers are households headed by someone 62 or older or disabled. Changes in the Section 8 program make it more attractive and convenient for landlords to use, including renter education programs, flexibility in the number of Section 8 households a landlord chooses to rent to, the ability to treat assisted renters the same as unassisted renters with respect to security deposits and non-renewals, and assistance in obtaining rental histories.

The task force will:

- Support the efforts of those advocating that the state dedicate 1% of its general fund budget to affordable housing, which would provide around \$230 million per biennium.

The task force encourages cities to:

- Publicize the availability of Section 8 money and information about the program's new features and who benefits.

The task force requests the State Legislature to:

- Dedicate a portion of the mortgage registry tax to affordable housing. Receipts from this source rise when the housing market is strong and prices are pushed upward, providing a logical connection between this tax and the need for affordable housing. These funds should be flexible, to support the variety of needs in different communities and should be distributed through the Metropolitan Council's livable communities program. Options include:
 - a) Redirect a portion of existing tax revenues to affordable housing.
 - b) Cap the existing distribution of tax receipts at an amount based on the average annual receipts over a defined time

period; make excess funds available for affordable housing.

- Dedicate most of any increase in the private activity bond cap to housing.
- Revise state law to make housing revenue bonds a more effective tool for financing affordable housing that is built as part of mixed income developments.
- Reappropriate funds for Inclusionary Housing Account of the LCA.

The task force requests the federal government to:

- Increase the caps on private activity bonds and low income housing tax credits, and index them for inflation. These are critical and urgent needs, since these tools provide the major source of financing for affordable housing in this country. Because the caps have not been indexed for inflation, their dollar value is worth a third less today than in 1986 when they were first instituted.
- Return to the business of producing affordable housing in ways consistent with the vision of affordable housing described in this report.
- Support the initiative of the U. S. Conference of Mayors to develop a national policy for reinvestment in cities which addresses issues such as incentives and strategies for transit-oriented mixed-use development, tools and incentives for the development of affordable housing, and tax credits for employers who provide housing assistance.

The task force requests the business community to:

- Adopt funding programs which improve the affordability of housing in their communities. The task force would be supportive of corporate tax incentives for those who do so.

Invest In Skill-building And Expertise

We believe strongly that it is important not only to make affordable housing available, but to make it successful. As described above, the production and management of affordable housing involve a wide range of expertise, including financial, architectural design and engineering, market studies, legal issues and property management. If cities are to take command of the growth processes in their cities and take heightened responsibility for affordable housing, they must have access to the needed expertise and skills. There are many excellent resources available, but nowhere are these available in a readily accessible and coordinated manner.

Throughout these pages we are encouraging people to think in new ways about affordable housing—especially with respect to mixed income developments. This means that affordable housing development sometimes challenges existing expertise. There is much cities can learn from each other as they try new things, and these lessons should not be lost as we proceed. A resource center which captures, shares, and helps cities institutionalize these lessons would speed progress on affordable housing production throughout the state.

The task force requests the Association of Metropolitan Municipalities, the Metropolitan Council, the Minnesota Housing Finance Agency, the Minnesota Multi Housing Association, the League of Minnesota Cities, the Minnesota Chapter of the National Association of Housing and Redevelopment Officials, the Minnesota Association of Local Housing Finance Agencies, and the Builders Association of the Twin Cities to jointly develop a coordinated system of technical assistance that will assist cities throughout the state and perform functions such as the following:

- Add to the information base in important areas, such as convening developers and housing experts to identify how to get developers involved and interested in building affordable housing, or exploring methods for ensuring long term affordability.

- Convene a group of professionals to develop model ordinances and guidelines to promote best practices for property management and maintenance, with special attention paid to mixed income developments. The charge of such a group is found in Attachment D.
- Facilitate mixed-income developments by developing a guidebook for cities based on local case studies. The guidebook should address issues such as: subsidy levels required for different types of housing, zoning and land ownership options, the complexities of the financing process, mechanisms needed to ensure the provision of affordable housing, how to clarify expectations of developers, means for ensuring long term affordability, the role of design guidelines in ensuring quality outcomes, and models for providing human and social services when needed.
- Provide training to guide cities through the process of negotiating development agreements with developers/builders, or understanding the complexities of mixed use, mixed-income developments.
- Develop a model housing rehabilitation program, including code enforcement ordinances, inspection programs, design and technical advice, partnerships with community organizations and loan pools. This could include the development of a joint remodeling plan book, such as *A Remodeling Planbook for Post-WWII Houses*, cosponsored by a consortium of fifteen metropolitan area cities.

Develop A Support Structure For
Those In Need Of Services

We have stated that people of all incomes and life circumstances should have affordable and dignified places to live. We have affirmed the benefits of mixed income, rather than exclusionary, housing developments. We have stated our goal of building strong communities and described affordable housing as being quality places to live. In order for *all* of these to be accomplished, we stress the importance of

providing human and social services to the limited segment of the population that needs help beyond the provision of a decent place to live.

We find this issue to be integrally connected to the task force's charge to identify ways to improve the supply of affordable housing. In order to build more affordable housing, we must be able to show that affordable housing can be done successfully. Some small portion of affordable housing requires services to be successful.

The task force requests:

- Faith communities to extend their work on affordable housing beyond production, into exploring how they might support services for those in need.
- Nonprofit agencies to explore possibilities for working with problem tenants so that they can secure stable housing and contribute to healthy housing environments.
- County social service agencies to rethink how they might coordinate or repackage their services for those living in affordable housing developments that may need such services. This should include participation in the planning and development stages of new housing.

About The Task Force

The Mayors' Regional Housing Task Force was convened in May of 2000, at the request of the Metropolitan Council. It is composed of mayors from sixteen cities, representing the spectrum of development capacities found in the metropolitan area: central cities, first ring suburbs, developing cities reaching capacity, cities on the MUSA edge, former freestanding growth centers, and urban reserve communities. The charge to the task force was to determine what must change to achieve regional and local affordable housing goals and to develop proposals for policies, programs and legislative recommendations to achieve the goals. The task force formed four committees, to explore issues and consider options. These were: Land Use, Zoning and Regulations; Public Awareness; Funding and Partnerships; and Design, Siting and Management.

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Property Management And Maintenance Task Force

The task force should include representatives from apartment owners and property managers, local officials, financing agencies, housing advocates, tenants' rights advocates, social service agencies and nonprofit service providers.

Charge The charge to the task force is to develop a set of model tools, guidelines and ordinances for best practices in property management and maintenance. Many resources for this task already exist; some are listed in the sources section of this report. An outline of MHFA's management monitoring process is attached to this charge as an example. In carrying out its charge, the task force should address the following:

- Address the issues set forth below.
- Focus on rental properties and mixed income developments, without overlooking issues pertaining to townhomes and single family residences, and identifying any special management needs of mixed income developments.
- Determine how cities could most effectively institutionalize the models, recognizing that these means may vary with the extent of city participation in a housing project.
- Determine what type of resources or assistance should be made available to landlords/cities trying to implement the models (e.g., design review).
- Consider a wide range of products to provide guidance, e.g., model leases, model criteria for development agreements, model screening procedures, model ordinances.
- Identify and resolve any possible conflict between the models and Section 8 requirements.
- Suggest means for balancing the need for financial reserves (or assessments or association dues) which ensure funding for long-term maintenance, but may impair the feasibility or affordability of the project.
- Evaluate the potential for a metro-wide tenant screening and application process, to reduce the hurdle of cash application fees for

prospective tenants, to minimize the likelihood of problem tenants moving from property to property, and to minimize duplicative processes by multiple landlords (e.g., credit checks).

Issues Experience and Reputation of those Involved

- Developers: conduct investigation of developer's financial and criminal records.
- New developers: visit on site.
- Property managers: Conduct background check and financial reviews; on-site visits of current properties; analyze existing property management experience.
- Establish guidelines for vetoing the property manager and accountants.
- Require or encourage training.
- Look for low turnover among property managers.

Financial

- Reserves: sufficient to fund future cash flow problems and provide for capital improvements; include operating, replacement and rent-up reserves at minimum of 4-6 months of projected operating costs plus debt service plus annual replacement reserve (minimum \$250/unit/yr.); establish escrow account for taxes and insurance.
- Ensure adequate insurance coverages.
- Property underwriting and expenditures: review rent projects; ensure proper documentation such as market study, appraisal, Phase I environmental and engineering study.
- Develop guidelines for equity disbursements and use of construction contingency.
- Incorporate requirements into project level legal documents.

Reporting and Monitoring

- Incorporate reporting requirements into project operating agreements.
- Conduct annual visits to inspect for physical management, condition of neighborhood, comparable properties, services for tenants, quality control check of tenant files, use of common spaces, financial reports and compliance verification.

Design

- Review design for crime-deterrent features.
- Ensure that materials and design features are long-lasting and do not impose burdensome maintenance requirements.

Property Management

- Screening process is critical: must be fair, easily understood and uniformly applied.
- Develop tenant guidelines and attach to every application.
- Application process should include: requirement that application be filled out completely; separate application for each roommate; proper identification; rental history; verification of income and employment; credit check; interviews strongly encouraged.
- Rental agreement is key; resident's handbook also a good idea.
- Establish different "rules" for common areas.
- Get tenants involved in community activities/apartment watch.
- Develop performance standards for: occupancy rates, rent collection, turnover time, annual inspections, average time to respond to complaints and work orders.
- Development and implement a comprehensive maintenance program of the following types: annual, scheduled, preventative, turnover, on-the-spot, resident initiatives, on request.
- Properties that perform best seem to have on-site management and excellent maintenance staff.
- Require excellent documentation of problem tenants in event that eviction becomes necessary.

Services

- Provisions to ensure that human and social services are available, if and when needed.
- How to improve coordination with social service and non-profit agencies.
- Consider new models for improving accessibility.