Minnesota Housing Finance Agency

Report to the Legislature

Study of Inclusionary Housing Initiatives

February 2002

Minnesota Housing Finance Agency

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SECTION I

INTRODUCTION

The 2001 Minnesota Legislature assigned the Minnesota Housing Finance Agency (MHFA) the task of studying "inclusionary housing statutes and ordinances throughout the country" and reporting back with "recommendations regarding approaches to encouraging residential developments that include housing for a range of incomes" to the 2002 Legislature. In developing recommendations, the Agency was instructed to "consult with representatives of builders, developers, realtors, municipalities, local zoning officials, housing advocates and local planning officials."

MHFA convened an Inclusionary Housing Advisory Group, which met seven times between October, 2001 and February, 2002. The Advisory Group reviewed inclusionary housing programs around the country and learned about efforts in Minnesota to produce privately developed, mixed-price, mixed-income housing. The Advisory Group reached general consensus on a set of public policy objectives and findings regarding inclusionary housing. The recommendations are MHFA's.

This report is the result of the Advisory Group process. It provides a definition of the concept, based on experience around the country. It provides information on the first and still best known program, Montgomery County, Maryland. It provides information on programs that have recently been or are in the process of being developed in several cities around the nation. It summarizes the findings of the Advisory Group created to work with the Agency in the conduct of the study. Finally, it provides the recommendations that the Minnesota Housing Finance Agency was directed to present to the 2002 Legislature.

MHFA wishes to thank the members of the Inclusionary Housing Advisory Group for their serious attention to the problem and their commitment of time to the process. The quality of the discussion and exchange among members has deepened the shared understanding of the terms and issues presented by inclusionary housing programs.

Inclusionary Housing Advisory Group Members

Legislators and Legislative Staff

House of Representatives:

Representative Karen Clark
Representative Jerry Dempsey
Representative Bob Gunther
Representative Dan McElroy
Representative Jim Rhodes

Erick Aamoth
Wendy Simons
Blaire Tremere

Senate:

Senator Ellen R. Anderson
Senator Richard J. Cohen
Senator David L. Knutson
Senator Myron Orfield
Senator Ann H. Rest
Senator Martha R. Robertson

Don Jorovsky
Angela Mukharamov

Representing Affordable Housing Advocates

Russ Adams, Alliance for Metropolitan Stability
Jay Schmitt, ISAIAH
Joy Sorensen Navarre, Metropolitan Interfaith Council on Affordable Housing (MICAH)
Jody Nelson, Metropolitan Interfaith Council on Affordable Housing (MICAH)

Representing Builders

Pam Perri Weaver, Builders Association of Minnesota
Tom McElveen, Builders Association of the Twin Cities
Karen Christofferson, Central Minnesota Builders Association
Hans Hagen, Hagen Homes
Michael Noonan, Rottlund Homes

Representing Cities

Gene Ranieri, Association of Metropolitan Municipalities
Barry Johnson, Association of Metropolitan Municipalities (Woodbury)
Scott Clark , League of Minnesota Cities (Brooklyn Park)
Patti Gartland, League of Minnesota Cities (Sartell)

Representing Nonprofit Funders

Angie Bernhard, Family Housing Fund
Warren Hanson, Greater Minnesota Housing Fund

Representing MHFA and the Metropolitan Council

Elizabeth Ryan, Metropolitan Council
Guy Peterson, Metropolitan Council
Gina Green, Minnesota Housing Finance Agency
Diana Lund, Minnesota Housing Finance Agency
Kim Stuart, Minnesota Housing Finance Agency
Tonja Orr, Minnesota Housing Finance Agency
Kit Hadley, Minnesota Housing Finance Agency

The research for this report was conducted on behalf of MHFA by Jim Solem, former regional administer of the Metropolitan Council and former Commissioner of MHFA, who also wrote most of the report with the exception of the section on Recommendations and Discussion.

SECTION II

EXECUTIVE SUMMARY

There is no doubt about the crisis in affordable housing. There is no doubt about the need to continue to produce more units of all kinds of housing to respond to the continued population growth of the state, region, and nation. New population projections for the Twin Cities Metropolitan area alone show a continued substantial growth in households -- 460,000 more from 2000 to 2030. They will need a place to live and cities throughout Minnesota will need to provide a mix of housing types and costs.

Government programs will not be the only answer to the housing needs of the next thirty years. There is not now, nor will there likely be in the future, enough public resources to provide an affordable place to live for every family in Minnesota. The task of providing that affordable place to live must include building as many unsubsidized units of the most affordable housing as is possible. Local governments -- primarily cities -- builders, citizens and neighborhoods, all need to recognize the need to develop a new approach to housing those families who are here now and the large number who will be here in thirty years.

By building for all needs at all incomes, as a part of the way a community grows and redevelops, it is possible to strengthen the response in Minnesota to the continuing need for an affordable place to live. Inclusionary housing is one tool that is available to respond to the crisis in the availability of affordable housing. It is not the only tool and it is not enough by itself.

This report makes the following recommendations:

- The Legislature should adopt a Mixed Housing Development Bill for the purpose of promoting housing developments that include homeownership and rental units, promoting housing developments that include a mix of incomes, and increasing the production of quality, unsubsidized housing for households whose housing needs are not being met by the private sector.

- The legislature should expand the tools and change the method by which cities pay for road projects necessary to development.

- The legislature should change the burden of proof in disputes from developers to cities where the proposed development is consistent with the city's zoning ordinance.

- The legislature should require cities to make findings on the extent to which the certain actions impact the costs of housing.

- MHFA and the Department of Administration should work with a technical advisory group of the Construction Codes Advisory Council to develop model ordinances that help simplify and reduce the costs of compact, mixed-use new development and in-fill redevelopment. This recommendation does not require legislation.

The Inclusionary Housing Advisory Group that assisted in the conduct of this study learned a great deal about both the possibilities and the limitations of the use of inclusionary housing. This report is designed to share that learning with all interested Minnesotans.

SECTION III

INCLUSIONARY HOUSING PROGRAMS AROUND THE COUNTRY

Inclusionary housing programs began in Montgomery County, Maryland in 1974. Since then hundreds of communities around the nation have adopted some version of the basic idea—produce below market rate units as a part of the regular development process by providing an incentive to the builder, which usually allows more units than the normal zoning standard for the site.

The idea has captured the attention of state and local governments in all parts of the nation, as the crisis of housing availability and affordability worsened in the decade of the '90s. Some places are looking for an easy answer to the housing crisis that has no visible, initial cost. Some are looking for a way to get local governments to recognize and respond to the growing housing crisis and engage the development community in the response. Others have recognized that there is no single simple answer and seek to use every tool that has demonstrated the potential to be a part of the solution to a growing local, state, and national problem.

The result of the growing interest in the use of the inclusionary housing tool has been the availability of a lot of information that is designed to advocate for, rather than explain how, and with what results, the programs work. This study has concentrated on understanding how, and with what results, the concept works.

A. Elements of Inclusionary Housing

A study of the literature on "inclusionary housing" does not provide a single definition that covers all of the programs now in place. The numerous state and local programs that provide for "inclusionary housing" do use a common set of basic elements in implementing the idea even though not all may have the identical set of characteristics.

What follows is a description of the basics of inclusionary housing.

Development of market rate and below-market rate units linked. In every case, "inclusionary housing" is a term used to describe programs that link the construction of a certain number of housing units that will sell or rent for less than the "market" with the construction of a certain number of market rate housing units. The objective is to allow the development of below-market rate housing to be a part of a community by providing a mechanism for both types of housing to be developed at the same time and, in most instances, as a part of the same development process at the same location. Some programs allow an "in-lieu" payment as a substitute for actually constructing a unit of housing.

An incentive is provided to the builder of the market rate units to encourage or assist with the construction of the below market rate units. This incentive is most commonly the authorization to build additional units beyond the number allowed in the zoning standards of the site. These are called the "bonus units". In some instances the builder is also allowed to build more market rate units as a part of the total incentive package.

Affordability defined. The price or rent level of the below market rate units is defined by a formula or process that specifies the house price or rents in relationship to the income of buyer or tenants. The bonus units may or may not be affordable to low- and moderate-income households as defined by Federal program standards. The initial affordability levels may also change over time as the local housing market changes.

Mandatory or voluntary. Inclusionary units can be provided in a way that is voluntary on the part of a developer, but always with the involvement of the local government, or with a mandatory requirement that is most often a part of state law, implemented by a local government. Given the costs of providing affordable rental units, voluntary programs are likely to exist only for ownership housing.

Incentives. Incentives for the builder are a part of every plan. Incentives may provide assistance with the production of both the bonus and market rate units. The most common incentive, and the one that gets the most attention, is the "density bonus." The density bonus permits the developer to build more total units than the local land use plan would normally allow, in return for building a specified number of below-market rate units.

Because the incentives are generally related to the zoning or land use standards of a community, and may include favorable adjustments to a number of land use requirements, the term "inclusionary zoning" is often used to mean the same thing as inclusionary housing. There are inclusionary housing plans that do not include density as a part of the incentive, but do include other local land use standards and development process changes that are attractive to a developer. These include the reduction or forgiveness of fees, accelerated processing of the development proposal and reduced standards for items such as parking spaces per unit of housing.

Long-term affordability. In almost every program there are requirements to maintain the affordability of the below market rate units for a specified period of time and to also provide for an administrative mechanism to assure this happens. These mechanisms need long-term administrative support and funding.

B. Description of Inclusionary Housing Programs

There is no single source of information on inclusionary housing. Nor is there any current summary of production for any of the states that have been the location of most of the inclusionary activity. There is a recent review of the program in Montgomery County, Maryland, which was the first, and still the best known, program. There are dozens of summaries of particular programs, advocacy pieces, proposals for adoption of new programs, and academic journal articles that have been used to provide the background material for this report. Any summary report, by necessity, can only use a small portion of the total information available. This report concentrates on the information that provides the most useful understanding of the programs that have worked, and why.

Montgomery County, Maryland

Montgomery County enacted the nation's first inclusionary housing ordinance in 1973. The County Executive vetoed the Ordinance. The veto was overridden by the County Council in January of 1974. The first inclusionary units were made available in 1976. Since then over 10,500 inclusionary units have been produced.

The original Montgomery County ordinance had all of the program elements now considered standard features. The program applied to developments of 50 or more units and provided that 15% of the units be affordable. In return the developer received a density bonus of 20%. The developer could produce 20% more units than the zoning initially allowed. The original affordability control period was five years and was later increased to ten years. Later changes in the ordinance have resulted in a more flexible program so that the number of affordable units is now a sliding scale of between 12.5% and 15% of the total, based on the number of density bonus units actually built. The density bonus was increased to 22% and the control period for rental units was increased to 22 years.

The Moderately Priced Housing Office, which is a part of the Department of Community and Housing Affairs, administers the program. Information on the operation of the program and details on current income limits and house prices can be found on the Departments' web site: www.co.md.us/hca.

The Brookings Institution Center on Urban and Metropolitan Policy published, in October of 2001, a study of the Montgomery County program, and three other smaller programs in the Washington area.[1] This is a complete review of the programs and

[1] "Expanding Affordable Housing Through Inclusionary Zoning: Lessons From The Washington Metropolitan Area" Karen Destorel Brown The Brookings Institution Center On Urban and Metropolitan Policy October 2001.

contains historical program data and an analysis of the current operational issues facing the programs in the Washington area. The report is available at www.brook.edu/es/urban/publicatons/inclusionary.pdf. Anyone interested in current information on the Montgomery County program should read this valuable study.

In addition to printed material as a source of information, the Twin Cities had a visit from a builder currently active in the program and the individual who headed the County Housing Authority for a number of years. This visit provided an opportunity to learn program details not found in printed studies and program explanations.

The following findings on the Montgomery County program are not meant to be a complete summary, but rather a set of findings that answer questions that have been raised in order to understand the operation of the program and the features that might apply to Minnesota.

Note that the program is called the Moderately Priced Dwelling Unit Program. This does not mean that all units are affordable by federal standards of affordability. The ordinance that created the program is called the Inclusionary Zoning and Density Allowance legislation. The terminology indicates the close relationship between housing development and land use policies. Beginning with the Montgomery County program, all inclusionary housing programs use some form of zoning or land use changes as an incentive to the developer for the production of additional units.

Findings from Montgomery County

1. A genuine quid pro quo is essential to the success of Montgomery County's inclusionary zoning ordinance. The ordinance works only to the extent that the developer gets a density bonus above the density ordinarily permitted.

2. At the time Montgomery County adopted its inclusionary zoning ordinance, the entire county was zoned. This fact made it clear that a developer was – or was not - receiving a density bonus above the density ordinarily permitted.

3. The price of the Moderately Priced Dwelling Units (MPDU) is set every five years and is increased in the intervening years by the CPI.

4. The price of the MPDU is based on the actual costs of constructing a model MPDU minus the cost of undeveloped land. The construction costs are determined by builders preparing cost estimates of actual, detailed plans of moderately priced homes or apartments.

5. The allowable income limits for purchasers of MPDUs are determined based on the cost of the unit and current interest rates. The price of the MPDU may or may not be affordable to low- and moderate-income households as defined by HUD. The literature on the Montgomery County inclusionary zoning ordinance typically refers to all MPDU units as "affordable."

6. A portion of the MPDUs is subsidized using traditional affordable housing tools to provide affordability to lower income households. Over the years, these tools have included Section 8, tax-exempt bonds, and housing tax credits.

7. As a rule, assuming that undeveloped land costs are 25% of the total cost of a house, the price of the MPDU units is 25% less than the same unit built on the same size lot would have been without the inclusionary housing ordinance.

8. The MPDU units typically, though not always, differ from the market rate units in size, exteriors, parking spaces, or other features. An essential feature of the program is the emphasis on good design and quality construction to insure compatibility among all units in the development.

9. The market rate units built under the inclusionary housing ordinance are generally the same size and price as would have been built without the density bonus. In a typical development, the developer gets one or more additional market-rate units with the density bonus.

10. The inclusionary housing ordinance in Montgomery County does not now produce the number of units it did in the decade of the '80s when there was the peak production of units under the program. Land availability and the scale of development have been reduced. New development standards have been adopted. Because of environmental and other regulations, builders cannot achieve the original densities allowed under the regular zoning ordinance.

11. As a result, a builder subject to the inclusionary housing ordinance must boost the price of the market-rate units to cross-subsidize the lower price of the MPDUs. If the developer gets the density bonus promised by the intent of the inclusionary housing ordinance, the price of the MPDUs is not cross-subsidized by the market-rate units.

12. Because of the increased price of all housing in the County, there is less turnover in the MPDU's, given the inability of current occupants to find an affordable unit for "move up." The supply of affordable units does not serve as many of the County's households as in the decade of the '80s. The time limit for affordability means units are lost after serving fewer total families than in past market situations.

Importance of Montgomery County Findings for Minnesota

Since its beginning in 1976, the Montgomery County program has produced over 10,500 MPDUs. The units have been built in all parts of the County. These units have been made available to households that are diverse in ethnic and economic characteristics.

The Brookings study data shows that in 1998, the purchasers of MPDUs were 80% minority and 20% white. Income data indicated that 84% of the households earned less that $49,000 per year.[2] It is important to remember that this was done using a combination of land use and affordable housing tools. The inclusionary portion of the program does not, by itself, reach these income levels.

The cooperation between builders and the County in the administration of the program is important to the success of the program. The price of the MPDUs is determined by a process that involves both builders and the county housing agency. Together, they determine the price of the housing product that can be produced in the county given land and construction costs. MPDU's pricing begins with market reality.

Current sales price for new construction of MPDU units are as follows: detached three-bedroom unit, $135,000; three-bedroom townhouse, $115,000; and two-bedroom garden condominium, $95,000.[3]

There is also cooperation in design and development standards for the inclusionary units. This improves local acceptance of the housing products. For inclusionary units, it is especially important to provide products that meet community standards without excessive additional costs.

The production of affordable units in Montgomery County substantially declined in the decade of the '90s. The Brookings study shows that 63% of all of the affordable home ownership units were produced before 1989.[4] Any current use of the Montgomery County model needs to recognize that the production results of the '80s cannot be obtained in today's market and development environment.

Montgomery County's program only applies to developments of 50 or more units. Growth has made the land supply scarce for developments of this size. The supply and cost of land in any location needs careful analysis before assuming results that are similar to those of Montgomery County in the decade of the '80s.

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[2] Brown page 13.
[3] email from Eric Larsen, Program Administrator January 23, 2002
[4] Brown page 16.

Cooperation between the local government and the builder is important in obtaining the best possible use of available development sites and providing the maximum number of units possible, including the inclusionary units. This is one of the main lessons from the review of programs from around the nation.

Creative use of expensive land to obtain the maximum number of housing units and meet community standards, is one of the keys to the successful use of inclusionary housing programs. Builders and local governments have to cooperate to achieve this result.

Preserving the long-term affordability of the inclusionary units is an issue highlighted by the current Montgomery County experience. The affordability and appreciation restrictions on the MPDUs have a time limit. If new units are not produced at a rate that maintains their numbers as existing units reach their expiration time, then the current supply of affordable units will be limited.

Any new program for ownership, must find the right balance between the need for maintaining a supply of affordable units and not penalizing owners at the time of resale with restrictions that limit too severely the appreciation in price the owner can retain.

Understanding the history of and the current issues in the Montgomery County program is important for the realistic design of any new program. Market conditions and land supply are important. The cooperation of the development community and the local government in housing product design and pricing is essential to the continued ability to make available the lowest priced, best quality products possible. The ability of the County to provide additional affordability assistance through the programs of its Housing Opportunity Commission, is an important additional tool in achieving the lower than market income levels of owners of MPDUs .

The Montgomery County record indicates the importance of inclusionary units as the starting point for the addition of affordability assistance to provide households of lower income with home ownership opportunities. Rental units use all the public programs that are used any place to obtain affordable rents. "The bonus density does not provide enough incentive to produce apartment projects."[5]

The Montgomery County program worked well at a particular time and in a particular housing and development market. It works less well now, but is still the source of important ideas and current experience for "inclusionary housing."

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[5] Report on The MPDU Program, Division of Housing and Code Enforcement, page 6. Web Site.

What follows is a summary of additional state and local programs, with the focus on those elements that go beyond the original Montgomery County program.

State of California

California is important both for state legislation that requires local inclusionary programs and for the number of creative local programs that have developed, given the crisis in affordable housing throughout much of the state.

State law in California requires local governments to give density bonuses of at least 25%, plus an additional incentive or equivalent financial incentive to housing developers who agree to construct al least 20% of the units affordable to lower income households, 10% of which must go to very low income households, or senior housing.[6]

This law is unique in that it requires approval of a housing proposal by the local government if a builder brings a plan to a city that meets the requirement of the law. This is the only example of this type of state law found doing this study.

The actual implementation of the law has not achieved the results that might be expected on first reading of the requirements. No one in California, including the state agency responsible for the implementation of the law, knows how many cities are actually following the law or how many units have been built as a result of the law.[7] One source of information, the web site of the California Government Reporter, had a list of 120 cities that are currently implementing inclusionary programs.[8]

There are a number of findings from the California experience that are important for understanding implementation issues in other locations. No affordable housing units are currently being produced in California using the density bonus alone.[9] It takes a number of related land use changes as well as direct program affordability assistance to meet the low- and very low-income requirements.

California allows senior housing with no income limits to meet the requirements of state law. A substantial amount of high-income senior housing is being built currently as a result of this provision of the law. This is the only state that was found to allow this use of the inclusionary concept.

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[6] Policy Memo California Department of Housing and Community Development-Division of Housing Policy Development "Model Density Bonus Ordinance" Dated August 6, 1966.
[7] E mail from Rob Wiener, Exec Director California Rural Housing August 21, 2001 and phone call with Linda Wheaton, Division of Housing Policy, Calif. Dept. of Housing and Community Development, August 30, 2001.
[8] California Government and Planning Reporter http://ceres.ca.gov/planning/bol/survey_housing.html
[9] Linda Wheaton phone call.

An important result of the California provision that gives builders the ability to initiate the change in local requirements if they meet state standards, is that it does get the idea of affordable housing considered at the beginning of the development process. Builders and city officials do look for opportunities to combine both the inclusionary law and housing programs as a part of the general development process. The builder is able to meet city requirements more quickly and cities can, at the beginning of the process, impact the quality and housing mix of the proposed development.

San Diego, California

A number of cities in California have a long history of actively implementing inclusionary housing programs. Today, cities are developing new approaches to the use of the concept to respond to their continuing housing crisis. The City of San Diego is currently considering a new ordinance, using a very complete analysis of both the development issues the city faces, as well as options for structuring realistic incentives to get affordable housing produced in the development areas of the city.

San Diego has labeled its effort a "Balanced Communities Housing Program" and has included a number of regulatory and program changes to go with the inclusionary housing portion of the program. One of San Diego's most important contributions to the larger discussion of the inclusionary idea, is the recognition that there are several general development opportunities in the city and incentive prototypes should be devised for each of these opportunities. The city can then manage more effectively the incentives and program resources to obtain the desired outcomes for each of the development opportunities. A consultant was hired to quantify the cost of obtaining affordable housing for each of the types of development opportunity.

The cost details of the San Diego findings are not important for this report since they clearly only apply to San Diego. What is important is the analytical model provided by the San Diego study and the recognition of the need for a more sophisticated application of incentives to obtain the desired housing outcomes. The model recognizes the financial needs of the developer as well as the real costs for the city and provides the basis for a more intelligent and flexible negotiation between the two parties.

While the complete package of incentives has not been finally decided, the initial list included: the density bonus allowed in state law, a reduction in the size of the affordable units, modified interior finishes for the bonus units, the application of all of the housing program and finance tools available to the city, floor area ratio changes, reduced parking requirements, water and sewer fee reductions, expedited permit processing, deferral or reduction of various city fees, and design standards that are accepted city wide for faster application processing.

Not every development will use all of these incentives. The important point is that a thorough analysis of the incentives required to produce affordable housing for a particular development can result in a decision that uses the most appropriate incentives from all of the items on this list.

The information on the San Diego program development effort comes from the several policy memos prepared for the San Diego Housing Commission and generously made available by the staff of the Commission.[10]

Denver, Colorado

A number of cities in other parts of the nation are actively involved in inclusionary housing ordinance debates. Denver may adopt an ordinance in February. The proposed ordinance has at least one unique feature in addition to the standard elements of an inclusionary program. The city of Denver proposed a set of incentives for builders that include a $5,000 per unit fee reduction, a 10% density bonus, and a 20% reduction in parking requirements.

If a developer does not build the required affordable units, a penalty of $140,000 per unit has to be paid to the city. This element was controversial and the mayor wanted the fee reduced by at least half. The task force working on the proposal suggested a flexible formula with developers paying half the cost of the units that were built as the penalty for not building affordable units.

This is the highest "in-lieu fee" found as a part of an existing or proposed program. It shows the extent to which the city is serious about builder participation in the production of affordable housing.

The summary sheet explaining the program makes the important point that "In order for projects to take full advantage of these incentives and realize significant financial benefits, developers must incorporate the bonus and parking reductions in their initial project planning. Staff will work with sponsors and neighborhood representatives to mitigate site design and density issues that may result in applying the incentives."[11]

The additional density that results from the inclusionary units is frequently a neighborhood acceptance issue. This is true in San Diego where neighborhood groups do not want density to be one of the incentives. Montgomery County developed building plans that added design elements that increased the attractiveness and cost of

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[10] Susan Riggs Tinsky@sdhc.org web site of San Diego Housing Commission.

[11] Program Summary Sheet, Inclusionary Housing Ordinance, Denver Housing and Neighborhood Development Services, January 2002. The Denver ordinance is available on the City Web Site www.denvergov.gov in the Clerk and Recorder Section under City Ordinances.

the development, but also increased the potential for local acceptance. Denver recognizes the importance of good planning and "the need to mitigate site design and density issues" with neighborhood groups. Any housing program that uses increased density as one of its incentives for the production of additional units will need to pay attention to the issues of design. A successful inclusionary housing program requires good land use planning and site design.

Boston, Massachusetts

Two years ago, Boston implemented an inclusionary housing program using a mayors' executive order. This program has many of the usual features and one unique element worth noting. Boston requires 10% of all units in a development to be affordable. If the builder wants to provide these units at a different site, then the requirement is 15%. Builders also have the option of making a financial contribution equal to 15% of the units multiplied by $52,000, the average public subsidy required to develop a unit of affordable housing in Boston. This number will be calculated annually. Boston recognizes the need for a subsidy to develop an affordable unit and has a process for the annual determination of the amount of the subsidy.[12]

A more detailed summary of the Boston plan is found in an article in a recent publication of the National Housing Conference.[13]

Local Programs – Summary

Inclusionary housing programs are being developed in cities in all parts of the nation. San Diego recognizes the need for a realistic and complete assessment of the costs associated with different development opportunities in the city and the incentives needed to achieve the production of each development type. Denver recognizes the need for good planning and careful design as a part of gaining community acceptance of the housing product being developed. Boston recognizes there is a subsidy needed to produce an affordable unit and provides a mechanism for calculating the amount required.

There are many other examples of programs for inclusionary housing now being developed in cities around the nation. Many have innovative elements that should be reviewed by communities considering the adoption of new programs. The development of a proposed ordinance for five cities in the St. Cloud area in Minnesota is among the most innovative approaches now underway. Whether a citizen group can

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[12] City of Boston, Department of Neighborhood Development web site www.cityofboston.gov////////dnd

[13] "Inclusionary Zoning: Lessons Learned In Massachusetts" Article "Boston's Policy Gives Developers Choice" by Meg Kiely page 26 National Housing Conference Affordable Housing Policy Review, Volume 2, Issue 1, January 2002 www.nhc.org

lead the negotiation for the adoption of a controversial ordinance in a voluntary process in five communities remains to be seen. It is an example of an effort to use the inclusionary program concept at a scale and in a way not found in any other location in the nation.

State Intervention in Local Land Use Decisions

The literature on "inclusionary housing" often uses the phrase "inclusionary zoning," to mean the same thing. It is important to note at least the mechanisms that have been developed to specifically deal with local zoning decisions once they have been made and thought to have "excluded" affordable housing. The terminology is not always clear and leads to confusion about what tool is being used to accomplish the objective of providing affordable housing.

Five states have legislation that creates some form of state level administrative or judicial override of a local zoning decision that prohibits the construction of affordable housing. Each has a different mechanism and set of standards for state intervention. The five states are Massachusetts, New Jersey, Connecticut, Rhode Island, and California. It is not the purpose of this study to review in detail the operation of the override statutes of these states. This is done for the four Eastern states in two recent volumes of the Western New England Law Review, which printed the papers that were presented at a Conference in December of 1999, recognizing the 30 years of history of the Massachusetts law.[14]

Massachusetts enacted the first of the override laws in 1969. It has come to be known as Chapter 40B. It is also the model for legislation adopted in Connecticut and Rhode Island. The legislation provides a streamlined approval process for qualified developers of low- and moderate-income housing. Developers need only apply to one local authority for a Comprehensive Permit.

If the permit is denied, the law allows the developer to appeal to a state body, the Housing Appeals Committee, which can then conduct a hearing and make a determination about the reasonableness of the local decision. If the state body finds the local decision was not reasonable, it can override the local decision.

The law also set standards for determining whether the local denial was consistent with local needs and defined 10% of the local housing stock for low- and moderate-income households as a threshold requirement to be immune from the appeal process. The local jurisdiction can only use a valid health, safety, environmental, design, open space or other local concern to outweigh the need for affordable housing.

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[14] Western New England Law Review Volume 22, Issue 2, 2001 and Volume 23, Issue 1, 2001.

Both Massachusetts and Connecticut provide cities an exemption from the state override provision if 10% of the existing housing stock is "affordable." "Affordable" is defined differently in each state. In Connecticut affordable housing units are subsidized housing from government programs or housing with a deed restriction that limits its use to low- and moderate-income persons. In Massachusetts the 10% refers to publicly subsidized housing and there is an additional standard for exemption related to the amount of land actually or proposed to be used for affordable housing.

In both states the local zoning authority must show, at the time of appeal of its decision, that there were valid health, safety, and protection of open space reasons for the rejection of the affordable housing proposal. In Connecticut, the local authority must also show that these concerns clearly outweigh the need for affordable housing and the health and safety issues cannot be met by reasonable changes in the design of the proposed development.

State law also clearly defines which affordable housing projects may take advantage of the override provision. In Connecticut it is housing that is a part of a governmentally-assisted housing project for low- and moderate-income people or a housing development in which at least 25% of the units are conveyed by a deed with a covenant that ensures the units will be sold or rented for 30 years at rents or prices not more than 80% of the median for the area. In Massachusetts it is the legal status of the developer that triggers the ability to appeal a local decision. Here, a qualified developer is a public agency, a non-profit developer, or a limited dividend organization that is proposing a low- or moderate-income project.[15]

Only five states have enacted local zoning override legislation. This study does not make the case for or against such legislation. It is important in understanding the larger issue of how to "include" affordable housing in the development decisions of local governments, that the power to "exclude" comes from the state, and standards for the use of this power can be established by the state. A mandatory inclusionary housing state law is a directive to local governments. A state override process establishes standards for action by local governments and a process for remedies if these standards are not met. Both can result in the production of affordable housing that would not otherwise occur.

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[15] "The Impact and Evolution of the Mass Comprehensive Permit and Zoning Appeals Act " by Sharon Perlman Krefetz. Western New England Law Review Vol. 22, Issue 2, page 381. This is an excellent article and should be read by anyone interested in this topic.

"Connecticut's Affordable Housing Appeals Statute" by Terry J. Tondro Western New England Law Review Vol. 23, Issue 1, page 115. This is a comprehensive history and evaluation of the impact of the act.

Studies of the states that have the local zoning override legislation have found the legislation creates a decision process in which it is to the advantage of both the local government and the builder to talk and negotiate at the beginning of the approval process. Reviewing a development plan in advance with local officials, gives the builder an opportunity to identify valid local objections and respond with revised plans. It can also avoid an expensive arbitrary decision by the local government. A process that requires the parties to affordable housing proposals to resolve legitimate issues of land use and development design in a timely and authoritative way, without the override feature, is worth considering.

Experience in Minnesota

The advisory group that worked with the Minnesota Housing Finance Agency in the analysis of this topic looked at information from a variety of sources, including Minnesota housing developers and local government officials. This information, along with the national data, was used in developing a set of findings for the discussion of policy options for Minnesota.

Local governments in Minnesota have the authority in their general powers to control the use of land and to require inclusionary housing as a part of the decisions they make about growth and land use.

In an opinion letter of October 1, 2001, the Attorney General of Minnesota said, "a City does have general statutory authority to enact requirements for construction of affordable housing units in connection with the development of residential subdivisions." After citing the relevant statute, the letter further said, "This language, in our view, provides statutory authority for enactment of a subdivision regulation providing for a reasonable portion of residential subdivisions to consist of housing units that would be affordable to persons of low or moderate income."[15]

The issue of in-lieu payments is less clear. After citing the relevant statutes, the letter concludes, "Neither of these provisions, or other statutes, to our knowledge, authorize collection of money in lieu of providing affordable housing. Absent such authority, we doubt that such a cash payment alternative requirement would be permissible."[16]

There are current examples of cities in Minnesota creatively using their existing powers and political leadership to obtain a mix of affordable and market rate housing as a part of the communities' growth process. Chaska, in its "Clover Ridge" development, is one of the best examples of what can be accomplished under existing law to provide a mix of housing types and prices, with city and builder cooperation.

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[15] Letter to St Cloud City Attorney from Minnesota Attorney General October 1, 2001, page 2.
[16] Attorney General letter, page 3.

The MHFA advisory group had a presentation from the Chaska Community Development Director, on the cooperation used to obtain affordable housing as a part of the decision process for Clover Ridge.[17] It takes a lot of learning at the beginning of the process to establish the design standards and land use plan that results in a development that meets community standards and provides affordable housing opportunities. This happens when there is local political support for a creative staff to work with willing builders to provide a housing product that meets market requirements and is as affordable as is possible.

The more efficient use of land is one of the keys to the success of inclusionary housing programs. Land is expensive and the more units per acre that can be built, the less the per-unit cost of the land. There is, however, a limit to the cost savings possible from more efficient land use. National data on building costs and local builder experience, both indicate that the cost of raw land is about 25% of the total cost of a detached single family housing unit. Apartment buildings have a smaller percent of total cost in land because they start with more units on a site.

There is a basic fact on the cost of land and the amount of reduction in house price that is possible from adding more units--the density bonus--that cannot be ignored. If land is 25% of the cost of a unit of single family detached housing and if more units are allowed as a part of an inclusionary program, then the reduction in the price of the unit from the density bonus would not be more than 25%. If the density bonus is the only incentive provided to builders, this would not by itself, result in housing affordable to low- and moderate-income families.

There is no "free land" in any inclusionary program. The raw land has to be paid for and the necessary infrastructure provided for the housing unit. Builders in the Twin Cities indicate the current cost of bringing raw land to the point of construction, is between $25,000 and $35,000 per lot.

Since land is not free, the reduction in the cost of land alone does not produce affordable housing. It is possible for local governments in Minnesota to include affordable housing in their growth decisions. Doing this requires real cooperation between the builder and the community making the growth decision. And the incentive to the builder to include affordable units has to be real. Understanding these points is understanding the essence of inclusionary housing.

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[17] Power Point Presentation, Kevin Ringwald, October 31, 2001. See also, Minneapolis Tribune article of January 20, 2002, page 1 of section B on the Clover Ridge development.

SECTION IV

FINDINGS ON INCLUSIONARY HOUSING

What follows are summary findings from the national review of inclusionary housing activity and the discussion by the Inclusionary Housing Advisory Group. The Advisory Group was able to reach general consensus on these findings. They highlight the main points from this review, and are meant to focus thinking for the development of the policy options and tools for the implementation of the options.

1. Inclusionary housing programs do produce more units of below-market rate housing than would have been produced without the inclusionary requirement. How many, and at what affordability levels, depends upon the standards of the particular law or ordinance.

2. Mandatory programs have resulted in the production of the most units of additional housing.

3. If a density bonus is the primary means of producing additional units, then the cost of the raw land for the bonus units and thus the total cost of the unit, is generally not more than 25% lower than it would have been without the density bonus.

   The percent that the land costs reflect of the total costs of the housing provides the limit on cost reduction that can be obtained by the density bonus. There is general agreement that lot costs are about 25% of the cost of a housing unit.

4. Given the limit of the density bonus in cost reduction, there is a general agreement that many other types of land use controls and building standards must be adjusted to reduce the cost and time of development in order to meet affordability objectives.

5. Local governments, working in cooperation with developers, are the key to the success of inclusionary housing. Local development standards determine the type and cost of the local housing supply. The existing tools and powers of Minnesota local governments can achieve positive results in both the numbers and affordability of housing units.

6. In addition to the commitment of the community to inclusionary housing, there is a clear need for skilled staff from both the local government and the developer.

   Fitting more units of housing into a space that does not increase, requires an understanding of the full set of available environmental, land use and design tools. The existing literature on inclusionary housing does not give enough attention to the need to understand and apply the best practices in land use, urban design, and affordable housing.

   Developers need to understand and accept the policy objectives of inclusionary housing, and local officials need to understand the costs, complexity, and time pressures of the development process.

7. The literature does not provide an adequate explanation of the economics involved: the contribution of the additional units to the affordability of the bonus units and to the pricing of all of the units in an inclusionary development. There is general agreement in the development literature that the roads, infrastructure, park dedication, etc., take about 35% of the total land available for development. This obviously varies by location and land characteristics. In addition, each lot must have infrastructure such as sewer and water provided. The combination of soft costs and the infrastructure costs for the preparation of raw land add a total cost between $25,000 and $35,000 per single family detached lot in the Twin Cities metro area. Land is not free. There is a cost to every lot to make it ready for development.

8. The sales price of the unit of housing is directly related to the price of the lot. There are appraisal and/or underwriting standards for the relationship between the value of the lot and the housing unit placed on the lot. The generally accepted standard is that the sales price cannot be more than four or five times the cost of the ready-to-build on lot. This price calculation standard is important for the developer in determining the profitability of the total development. The number of units, condition of the local market, and the ability to produce attractive products on a site, all impact the price and profit of the housing products in an inclusionary development. These factors also get used in the calculation of the need, if any, for additional resources to meet the affordability objectives of the development.

9. Maintaining the long-term affordability of the inclusionary units also takes specific tools in state law that work for the duration of the affordability requirement. The adequacy of the existing tools in Minnesota law requires further analysis. There is limited experience in Minnesota in the long-term application of these tools.

10. Any reduction in the cost of the housing that results from the density bonus and other land use adjustments, reduces the amount of the public subsidy needed to meet affordability objectives. These cost reductions are especially important for rental units where the affordability requirement means more direct assistance per unit is needed.

11. Inclusionary housing produces smaller savings in an apartment development than in a detached single-family or townhome development because the land costs are a smaller portion of the total costs. See Item 10 for the importance of all cost savings.

    The rental income requirements of inclusionary programs are lower than the home ownership standards. It is unlikely that any rental development will meet these requirements without the use of state and federal assistance programs for affordable rental housing. The Low Income Housing Tax Credit should be assumed to be a part of the financing for all affordable rental units.

SECTION V

RECOMMENDATIONS AND DISCUSSION

In developing its recommendations, MHFA was guided by the following policy objectives, which were agreed on by the Inclusionary Housing Advisory Group.

1. To increase the supply of affordable housing not currently being produced by the private market. "Affordable housing" means homes or apartments that can be bought or rented with 30% of a household's income.

2. To increase the production of privately developed, quality, unsubsidized affordable housing.

3. For cities with local comprehensive plans, to develop housing at density levels specified in local comprehensive plans.

4. For cities with local comprehensive plans, to adopt zoning ordinances and regulations that implement the policies and goals of local comprehensive plans, where applicable.

5. For cities without a comprehensive plan, to develop housing at density levels consistent with the zoning ordinances.

6. To provide affordable housing opportunities within a community, for a full range of incomes that are not limited to particular neighborhoods.

7. To provide affordable housing opportunities within all communities, not limited to particular geographic areas.

8. To adopt rehabilitation standards that promote an increase in the rehabilitation of existing affordable housing and lower the cost of such rehabilitation.

9. To provide incentives to communities that adopt regulations to accommodate growth at densities that provide for the most efficient use of land, meet regional standards, where they exist, and assist in the reduction of the costs of producing housing.

A. Recommendations

The Minnesota Housing Finance Agency recommends that the following actions be taken to increase the production of unsubsidized, affordable housing not currently being produced by the private market. Tables 1, 2 and 3 in the Appendix may be helpful in understanding recommendation number 1 below.

1. Mixed Housing Development. The Legislature should adopt a Mixed Housing Development Bill.

a. The purpose of a Mixed Housing Development Bill would be to promote housing developments that include a mix of home ownership and rental units, to promote housing developments that include a mix of incomes, and to increase the production of quality, unsubsidized housing for households whose housing needs are not being met by the private sector.

b. The legislation would provide that if a developer proposes a mixed housing development, then the city must offer in good faith reasonable regulatory accommodations to facilitate the economic feasibility of the development.

c. "Reasonable regulatory accommodations" include but are not limited to the following:

1) Increased density
2) Smaller set-backs
3) Smaller sized dwelling units
4) Smaller street widths
5) Smaller lots

d. A "mixed housing development" is a development that includes the following:

1) in a development with both for-sale and rental housing, at least 20% of the units are rental, or

2) in a rental housing development, at least 20% of the units are affordable to households earning 50% of the greater of state or area median income or 40% of the units are affordable to households earning 60% of the greater of state or area median income; or

3) in a for-sale housing development, at least 20% of the units have a selling price equal to or less than the lower of:

a) the median sales price for homes in the city according to the most recently available data from the Department of Revenue's Certificate of Real Estate Value (see Appendix, Tables 1 and 2), or

b) the median sales price for homes in the county according to the most recently available data from the Department of Revenue's Certificate of Real Estate Value (see Appendix, Tables 1 and 2), or

4) at least 30% of the units are a combination of the above.

e. In a dispute, the burden of proof would be on the city to show that the developer's proposal jeopardizes health or safety or imposes costs significantly higher than a development without regulatory accommodations. In cities with comprehensive plans, net densities within the range allowed in the comprehensive plan are presumed to be reasonable as to density.

This provision will make clear that a city's ability under current law to negotiate house prices or rent levels that are more affordable than those set forth in paragraph 'd' will not be affected.

f. Exempt places:

1) Counties with a population under 30,000

2) Cities that have adopted an inclusionary housing ordinance

g. High priority for funding from MHFA funds for units built

1) Pursuant to this section, or

2) Pursuant to an inclusionary housing ordinance

2. Paying for road projects. The legislature should expand the tools and change the method by which cities pay for road projects necessary to development.

3. Burden of proof. The legislature should change the burden of proof in disputes from developers to cities where the proposed development is consistent with the city's zoning ordinance. The burden would be on cities to prove health or safety concerns. In cities with comprehensive plans, in a dispute concerning a planned unit development, net densities within the range allowed in the comprehensive plan are presumed to be reasonable as to density.

4. **Housing cost impact statement**. The legislature should require cities to make findings on the extent to which the following actions impact the costs of housing:

a. A city imposes on a housing development requirement(s) related to the dwelling units in excess of the state's building code;

b. A city amends its zoning ordinance; or

c. With respect to a proposed development that meets the city's zoning ordinance, the city requires the developer to reduce the density.

5. **Model zoning overlays**. MHFA and the Department of Administration should work with a technical advisory group of the Construction Codes Advisory Council to develop model ordinances that help simplify and reduce the costs of compact, mixed use new development and in-fill redevelopment. This recommendation does not require legislation.

B. Discussion

The following is a discussion of the rationale for MHFA's recommendations.

Affordable versus below-market. One of the most misleading terms in the discussion of inclusionary housing efforts around the country is the term "affordable." In the Montgomery County model, the price of a newly constructed moderately-priced dwelling unit is set based on the real costs of construction and, depending on construction costs and interest rates, may or may not be "affordable" as that term is used by those in the business of producing and advocating for low-income housing. In other states, Connecticut for example, "affordable" means either "subsidized" or affordable at 80% of median, a standard many affordable housing advocates consider too high.

The truly "affordable" newly constructed units in Montgomery County are subsidized using the same funding tools that have been used aggressively in Minnesota.

We think there has been insufficient attention paid by policymakers to the need to produce lower cost, unsubsidized housing. The goal of these recommendations, therefore, consistent with the agreed-upon policy objectives, is to increase the supply of affordable housing not currently being produced by the private market and increase the production of privately developed, quality, unsubsidized housing.

Mandatory versus voluntary. The opinion of the attorney general makes it clear that cities may adopt an inclusionary housing ordinance. The Clover Ridge Development in Chaska and discussion by the group make it clear that cities have most of the tools they need now to increase the supply of housing at costs lower than is currently being produced by the private sector. These recommendations are aimed at encouraging all cities to promote the production of affordable housing not currently being produced by the private market and increase the production of privately developed, quality, unsubsidized housing. This is a mandatory negotiation bill not a mandatory inclusionary housing bill.

This report finds that mandatory inclusionary housing produces more units than voluntary efforts. The primary reason we are not recommending statewide mandatory inclusionary housing is because we think there is no bi-partisan support for it. We think it is critical, in light of the urgency of the affordable housing problem, for the state to move forward this year on steps to increase the supply of affordable housing not currently being produced by the private sector.

Legitimate concerns of cities and developers. These recommendations are designed to address the legitimate concerns of both cities and developers. They recognize the legitimate concerns of cities by providing that safety, health, and cost concerns are reasons for turning down a builders' proposal. They propose addressing one of the cities' concerns about shouldering the costs of development: how to pay for roads.

In order to address developers' concerns that cities might force developers to build a product that is not marketable or to achieve affordability levels that are not achievable without subsidies, this provision is triggered by a developer who believes that with certain regulatory accommodations, a mixed housing development can be successfully built and marketed.

Use of median sales price. For for-sale housing, we recommend the use of a city's or county's median sales price rather than a percentage of HUD's median income, whose connection to the cost of land, construction, and financing is artificial. While using a percentage of the HUD median income may make more sense for a city or some counties where the housing market is smaller and less diverse, from a statewide perspective a sales price pegged to a percentage of a HUD median income, in some communities, is impossible to achieve without subsidy and, in others, is too high.

Although not perfect, the use of a city's median sales price focuses on increasing the supply at the lower-priced half of sales in the community and better reflects differences in land prices in different cities. Where the cities or counties median sales price is too low to build profitably, then developers will not propose a development under this provision.

Rental housing. Under this recommendation, a housing development with both rental and for-sale housing is considered a "mixed housing development" if 20% of the units are rental, regardless of rent or income level. The reason for this recommendation is two-fold: the low level of rental housing production in metropolitan areas in Minnesota compared to other areas and the small impact which inclusionary housing ordinances have on the affordability levels of rental housing as compared to for-sale housing.

Burden of proof. Several of the policy objectives agreed to by the Advisory Group addressed the goal of developing housing at densities consistent with comprehensive plans and zoning ordinances. The primary mechanism we suggest to address the objectives is to change the burden of proof in disputes between developers and cities. Developers must now show that a city's action were arbitrary and capricious. We recommend that in a dispute where the developer's proposal is consistent with the city's stated policies expressed in the zoning ordinance or, where applicable, the comprehensive plan, the burden on the city should be higher to show why the developer's proposal is unreasonable.

One of the primary reasons why we believe the Montgomery County model would not work as well in Minnesota as it worked originally in Maryland has to do with the way zoning and development proposals are handled. Despite zoning ordinances and comprehensive plans, developers do not know ahead of time what will be allowed. This uncertainty and lack of predictability contributes to increased costs and makes it impossible to determine, as they can in Montgomery County, what a development "incentive" might be.

Changing the burden proof will shift the bargaining power during negotiations when a development is consistent with the city's zoning or comprehensive plan. One alternative is to create an appeals board or to use similar existing mechanisms cities now employ in other circumstances. However either approach would require an increase in bureaucracy and staffing costs at the state or local level – an approach which we believe is neither a good idea nor financially viable.

Model zoning overlays. Existing ordinances often impose standards on redevelopment in fully developed cities that exceed the standards of the surrounding land use; for example, greater set backs and lot coverage may be required for the infill redevelopment than for the existing buildings. Similarly, existing city ordinances governing new development are often based on a single use, low density model of development.

Cities that want to develop or redevelop using more compact, mixed use approaches have to undergo a lengthy process of authorizing waivers of numerous code provisions. The model zoning ordinances would be overlays that could be adopted in their entirety on a case-by-case basis. This recommendation does not require legislation.

Rehabilitation Standards. The Minnesota Department of Administration is in the process of adopting modifications to the state building code that establish standards designed specifically for the repair or rehabilitation of existing buildings. There are two primary problems with a single building code that applies equally to new construction and rehabilitation projects. First, it increases the cost of rehabilitation efforts by imposing requirements that may make sense for new construction but are unnecessary and unrealistic for a rehabilitation project. Second, it is prohibitively expensive or, in some cases, impossible to preserve the character of the community or neighborhood or area.

The Department of Administration's goal is to have these changes take effect on or by July 1, 2002. The changes would clarify and elaborate on building code standards for repair of existing buildings and structures, changes of occupancy, and alterations, including buildings and structures with historical significance.

Appendix

Inclusionary Housing Web Sites

Table 1 - Median House Prices In Counties With Populations Of 30,000 And Over, Certificate of Real Estate Value, 2000

Table 2 - Median House Prices For Selected Cities, Certificate of Real Estate Value, 2000

Table 3 - Housing Affordability Based on Various Income Levels Metropolitan Area, 2001

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Inclusionary Housing Web Sites

There are hundreds of references to inclusionary housing on any of the major Web Search Engines. The following is a limited list of the most useful or most applicable to the results of this study.

Brookings Institution, Center on Urban and Metropolitan Policy
www.brook.edu/es/urban
Excellent source of research and policy papers including the Karen Brown study on Montgomery County

Harvard Joint Center for Housing Studies
www.jchs.harvard.edu
Excellent source of housing policy research including the annual "State of the Nations Housing", must reading for anyone interested in housing issues.

National Housing Conference
www.nhc.org
National housing policy advocacy organization that has published two recent monographs on Inclusionary Housing which are on the web site.

National Low Income Housing Coalition
www.nlic.org
A good source of current Congressional and HUD budget information as well as advocacy information from around the nation.

Millennial Housing Commission
www.mhc.gov
National Commission created to suggest new housing policies and programs to the Congress. The background papers on their web site are an excellent source of basic information on current programs and problems.

Housing Opportunity Commission of Montgomery County

www.hocweb.org

The basic information on Montgomery County.

Innovative Housing Institute

www.inhousing.org

An organization that promotes the Montgomery County program and has good background information.

New Jersey Council on Affordable Housing

www.state.nj.us/dca/coah

State Agency that implements the New Jersey Inclusionary Zoning Law.

Massachusetts Housing Partnership

www.phpfund.com

State Agency that implements the Inclusionary Zoning Law.

California Department of Housing—Division of Housing Policy Development

www.hcd.ca.gov/hpd

Has the California model ordinance and related information.

San Diego Housing Commission

www.sdhc.net

Currently has information on San Diego housing programs-no information yet on the inclusionary ordinance.

Table 1 - Median House Prices In Counties With Populations Of 30,000 And Over Certificate of Real Estate Value, 2000

County	Population	Existing House Median Selling Price
Hennepin	1,116,200	$164,280
Ramsey	511,035	$147,075
Dakota	355,904	$172,050
Anoka	298,084	$155,289
Washington	201,130	$182,281
St. Louis	200,528	$86,580
Stearns	133,166	$112,665
Olmsted	124,277	$134,865
Wright	89,986	$156,582
Scott	89,498	$84,360
Carver	70,205	$199,689
Sherburne	64,417	$183,039
Otter Tail	57,159	$85,598
Rice	56,665	$135,420
Blue Earth	55,941	$106,005
Crow Wing	55,099	$106,560
Clay	51,229	$91,575
Winona	49,985	$103,452
Goodhue	44,127	$130,980
Itasca	43,992	$92,685
Kandiyohi	41,203	$90,965
Chisago	41,101	$157,898
Beltrami	39,650	$86,347
Mower	38,603	$72,705
McLeod	34,898	$117,660
Benton	34,226	$116,439
Steele	33,680	$118,215
Douglas	32,821	$116,939
Freeborn	32,584	$73,260
Morrison	31,712	$85,581
Carlton	31,671	$95,460
Polk	31,369	$70,596
Isanti	31,287	$133,200
Becker	30,000	$93,240

Table 2 - Median House Prices For Selected Cities
Certificate of Real Estate Value, 2000

Median	City	County
$188,478	Andover	Anoka
$144,300	Anoka	Anoka
$132,054	Bethel	Anoka
$152,070	Blaine	Anoka
$187,257	Burns	Anoka
$155,289	Centerville	Anoka
$136,419	Circle Pines	Anoka
$138,140	Columbia Heights	Anoka
$187,590	Columbus	Anoka
$144,300	Coon Rapids	Anoka
$172,355	East Bethel	Anoka
$149,850	Fridley	Anoka
$177,076	Ham Lake	Anoka
$137,363	Lexington	Anoka
$182,453	Lino Lakes	Anoka
$166,885	Linwood	Anoka
$184,815	Oak Grove	Anoka
$170,108	Ramsey	Anoka
$149,739	Spring Lake Park	Anoka
$140,582	St Francis	Anoka
$113,220	St Cloud	Benton/Stearns
$111,000	Mankato	Blue Earth
$98,235	Benton	Carver
$216,450	Camden	Carver
$176,990	Carver	Carver
$225,885	Chanhassen (Jt)	Carver
$212,010	Chaska	Carver
$186,480	Chaska	Carver

Median House Prices for Selected Cities
Certificate for Real Estate Value, 2000

Median	City	County
$160,839	Cologne	Carver
$210,789	Dahlgren	Carver
$98,679	Hamburg	Carver
$149,850	Hollywood	Carver
$246,420	Laketown	Carver
$156,455	Mayer	Carver
$130,869	New Germany	Carver
$131,679	Norwood-Young America	Carver
$209,457	San Francisco	Carver
$302,919	Victoria	Carver
$336,608	Waconia	Carver
$184,024	Waconia	Carver
$238,650	Watertown	Carver
$151,515	Watertown	Carver
$235,875	Young America	Carver
$145,299	North Branch	Chisago
$91,575	Moorhead	Clay
$94,350	Moorhead	Clay
$82,917	Brainerd	Crow Wing
$168,609	Apple Valley	Dakota
$168,720	Burnsville	Dakota
$255,300	Castle Rock	Dakota
$135,091	Coates	Dakota
$228,105	Douglas	Dakota
$180,819	Eagan	Dakota
$165,928	Empire	Dakota
$260,850	Eureka	Dakota
$164,780	Farmington	Dakota
$231,990	Greenvale	Dakota

Median House Prices for Selected Cities
Certificate for Real Estate Value, 2000

Median	City	County
$239,205	Hampton	Dakota
$133,089	Hampton	Dakota
$149,850	Hastings (Jt)	Dakota
$155,974	Inver Grove Hts	Dakota
$199,689	Lakeville	Dakota
$216,450	Lilydale	Dakota
$222,000	Marshan	Dakota
$106,560	Mendota	Dakota
$229,215	Mendota Heights	Dakota
$137,529	New Trier	Dakota
$230,825	Nininger	Dakota
$210,789	Northfield (Jt)	Dakota
$194,250	Randolph	Dakota
$161,949	Randolph	Dakota
$233,128	Ravenna	Dakota
$179,543	Rosemount	Dakota
$194,250	Sciota	Dakota
$139,860	South St Paul	Dakota
$493,950	Sunfish Lake	Dakota
$198,690	Vermillion	Dakota
$144,189	Vermillion	Dakota
$191,420	Waterford	Dakota
$150,960	West St Paul	Dakota
$196,339	Lake City	Goodhue
$117,660	Red Wing	Goodhue
$172,661	Bloomington	Hennepin
$140,859	Brooklyn Center	Hennepin
$155,400	Brooklyn Park	Hennepin
$160,950	Champlin	Hennepin

Median House Prices for Selected Cities
Certificate for Real Estate Value, 2000

Median	City	County
$211,400	Corcoran	Hennepin
$144,189	Crystal	Hennepin
$166,944	Dayton (Jt)	Hennepin
$415,418	Deephaven	Hennepin
$207,015	Eden Prairie	Hennepin
$265,290	Edina	Hennepin
$230,325	Excelsior	Hennepin
$182,484	Golden Valley	Hennepin
$210,789	Greenfield	Hennepin
$295,260	Greenwood	Hennepin
$234,210	Hassan	Hennepin
$129,315	Hopkins	Hennepin
$357,920	Independence	Hennepin
$182,873	Long Lake	Hennepin
$187,479	Loretto	Hennepin
$177,045	Maple Grove	Hennepin
$185,370	Maple Plain	Hennepin
$294,150	Medicine Lake	Hennepin
$271,284	Medina	Hennepin
$144,189	Minneapolis	Hennepin
$222,000	Minnetonka	Hennepin
$455,100	Minnetonka Beach	Hennepin
$362,415	Minnetrista	Hennepin
$160,950	Mound	Hennepin
$166,389	New Hope	Hennepin
$466,200	Orono	Hennepin
$155,289	Osseo	Hennepin
$205,350	Plymouth	Hennepin
$156,510	Richfield	Hennepin

Median House Prices for Selected Cities
Certificate for Real Estate Value, 2000

Median	City	County
$142,080	Robbinsdale	Hennepin
$149,018	Rockford (Jt)	Hennepin
$215,840	Rogers	Hennepin
$350,760	Shorewood	Hennepin
$172,050	Spring Park	Hennepin
$165,668	St Anthony (Jt)	Hennepin
$188,589	St Boniface	Hennepin
$159,729	St Louis Park	Hennepin
$654,900	Tonka Bay	Hennepin
$275,280	Wayzata	Hennepin
$477,300	Woodland	Hennepin
$127,650	Cambridge	Isanti
$84,693	Willmar	Kandiyohi
$119,880	Hutchinson	McLeod
$134,865	Rochester	Olmsted
$190,920	Arden Hills	Ramsey
$197,580	Falcon Heights	Ramsey
$369,686	Gem Lake	Ramsey
$150,405	Lauderdale	Ramsey
$154,013	Little Canada	Ramsey
$160,950	Maplewood	Ramsey
$143,468	Mounds View	Ramsey
$175,047	New Brighton	Ramsey
$453,990	North Oaks	Ramsey
$148,740	North St Paul	Ramsey
$165,279	Roseville	Ramsey
$180,375	Shoreview	Ramsey
$166,389	Spring Lk Pk (Jt)	Ramsey
$135,365	St Anthony (Jt)	Ramsey

Median House Prices for Selected Cities
Certificate for Real Estate Value, 2000

Median	City	County
$132,645	St Paul	Ramsey
$146,576	Vadnais Heights	Ramsey
$183,139	White Bear	Ramsey
$159,840	White Bear L (Jt)	Ramsey
$208,569	Belle Plaine	Scott
$147,630	Belle Plaine	Scott
$291,930	Cedar Lake	Scott
$258,075	Credit River	Scott
$203,130	Elko	Scott
$163,559	Helena	Scott
$270,840	Jackson	Scott
$152,070	Jordan	Scott
$188,589	Louisville	Scott
$329,670	New Market	Scott
$130,925	New Market	Scott
$140,138	New Prague (Jt)	Scott
$197,580	Prior Lake	Scott
$210,290	Sand Creek	Scott
$191,919	Savage	Scott
$155,400	Shakopee	Scott
$286,491	Spring Lake	Scott
$255,189	St Lawrence	Scott
$84,360	Duluth	St. Louis
$317,460	Afton	Washington
$161,505	Bayport	Washington
$392,940	Baytown	Washington
$214,452	Birchwood	Washington
$163,670	Cottage Grove	Washington
$426,240	Dellwood	Washington

Median House Prices for Selected Cities
Certificate for Real Estate Value, 2000

Median	City	County
$305,250	Denmark	Washington
$183,150	Forest Lake	Washington
$155,289	Forest Lake	Washington
$388,500	Grant	Washington
$183,650	Hugo	Washington
$306,915	Lake Elmo	Washington
$180,930	Lakeland	Washington
$172,050	Lakeland Shores	Washington
$208,125	Mahtomedi	Washington
$288,600	Marine St Croix	Washington
$333,000	May	Washington
$203,130	New Scandia	Washington
$146,520	Newport	Washington
$161,505	Oak Park Hgts	Washington
$160,950	Oakdale	Washington
$272,505	Pine Springs	Washington
$145,410	St Croix Beach	Washington
$185,814	St Marys Point	Washington
$141,969	St Paul Park	Washington
$295,815	Stillwater	Washington
$188,700	Stillwater	Washington
$393,495	W Lakeland	Washington
$169,775	White Bear L (Jt)	Washington
$122,100	Willernie	Washington
$199,800	Woodbury	Washington
$98,679	Winona	Winona

Table 3 - Housing Affordability Based on Various Income Levels Metropolitan Area, 2001

	Median Income[18]	80% of median	60% of median	50% of median	30% of median
Income Level	$74,700	$59,760	$44,820	$37,350	$22,410
Affordable Homeownership					
House Price[19]	$223,488	$178,790	$134,093	$111,744	$67,046
Monthly House Payment (PITI)	$1,743	$1,394	$1,046	$872	$523
Affordable Rental Housing					
Monthly Rent[20]	$1,860	$1,490	$1,120	$930	$560

[18] Median family income as estimated by HUD for the Mpls./St. Paul Metropolitan Statistical Area
[19] Home prices and resulting monthly payments assume a five percent down payment (a 95% loan-to-value ratio); interest rate of 6.25 (week of October 31, 2001); taxes and home owners insurance were estimated at 2.5% of the home price divided by 12; total house payment does not exceed 28% of income (Fannie Mae underwriting standards).
[20] Affordable rents assume that the monthly rent does not exceed 30% of income (numbers were rounded off).

Sec. 37. [STUDY.]

The housing finance agency, in conjunction with the office of strategic and long-range planning, shall study inclusionary housing statutes and ordinances throughout the country and shall report to the legislature by January 15, 2002, on the implementation of statutes and ordinances on inclusionary housing, including:

(1) a description of the various inclusionary housing statutes and ordinances;

(2) the number of housing units, both ownership and rental, developed under inclusionary statutes and ordinances;

(3) the level of affordability achieved in the housing developed under inclusionary statutes and ordinances;

(4) the demographic characteristics of the households residing in the affordable units developed under inclusionary housing statutes and ordinances, if available; and

(5) the amount of public funds, if any, invested in the affordable units developed under inclusionary housing statutes and ordinances.

The report shall make recommendations regarding approaches to encouraging residential developments that include housing for a range of incomes. In developing recommendations, the state agencies must consult with representatives of builders, developers, realtors, municipalities, local zoning officials, housing advocates, and local planning officials.