



Draft Policy Recommendations - Minneapolis Inclusionary Zoning

October, 2019

On-site Affordability Requirements

Rental

- Option 1: 8% of units affordable at 60% of Area Median Income (AMI); no City financial assistance; revisit after 18 months
- Option 2: 20% of units affordable at 50% of AMI; City financial assistance (Tax-Increment Financing) available
- Option 3: Half the 60% AMI requirement (4% of units) affordable at 30% of AMI; no City financial assistance

Ownership

- Initially: ownership projects exempt
- Starting 6 months after the first 500 units are approved and permitted: 4% of units affordable at 80% of AMI
- Starting 6 months after the first 1000 units are approved and permitted: 8% of units affordable at 80% of AMI

Revenue Loss Offset Policy (TIF Policy)

- If the City determines that the maximum available TIF is insufficient to achieve feasibility, the City will provide additional financial support or reduce the IZ requirement (for the non-TIF-supported option) to a feasible level.
- Staff will provide an annual report of any projects that receive additional financial assistance or a reduced IZ requirement, including how much assistance or reduction was provided.

Threshold Size / Scaling for Smaller Projects

- Apply IZ policy to projects of 20 or more units
- For projects of 20-99 units (with non-TIF options), exempt the first 15 units from the IZ requirement. Exemption tapers off for projects from 85-100 units.
- Exempt projects of 20-49 units until 6 months after the first 500 units in 20-49 unit projects are approved and permitted (receive building permit)



Student Housing

- Student housing projects owned and operated by a college are exempt
- Privately-built housing intended to primarily serve students is not exempt
- Students are eligible for any IZ unit if they meet federal eligibility requirements
- Rents set on a per-unit basis (rather than per-bedroom). Units may be rented out by the room, but the total rent for the unit can't exceed the set rent per unit. All residents occupying the unit must be deemed eligible.

Compliance alternatives

In-lieu Fee

- Set the fee to be moderately higher than the affordability gap (cost to developer to build on site). Specifically, if the on-site requirement is 8% of units affordable, set the in-lieu fee based on the cost to the developer of making 10% of units affordable.
- \$15/square foot for projects of up to 7 stories
- \$22/square foot for projects of 8 or more stories
- Proportional amount when requirement is phasing in, i.e. when ownership requirement is 4% (half of 8%), reduce in-lieu fee amount by half
- Consider adjusting ownership fee when condo market picks up again

Off-site Development

- Allowed within ½ mile of market-rate development
- Partnership with affordable housing developer allowed
- Project must provide at least the level of public benefit that would be achieved on-site
- Market-rate developer must make a meaningful contribution to the affordable project
- Affordable units must be built and occupied prior to or concurrent with the market-rate units *or* the market-rate developer must provide a guarantee of at least an equivalent contribution as the in-lieu fee should the affordable project not be completed within a set period of time
- Staff may recommend an off-site project outside these defined parameters for consideration by Council



Land Donation

Donated land must:

- Have an appraised value is equal to or greater than the in-lieu fee in effect at the date of dedication. If the appraised value is less than the in-lieu fee, developers may contribute the remaining requirement in a cash fee.
- Be in a location where there is high need for sites for affordable housing
- Be developable for affordable housing (e.g. in an area zoned for residential, no existing structures on the site)

Fractional units

If the inclusionary requirement results in a number that includes a fraction of a unit, the developer may choose to:

- Pay an in-lieu fee for the fraction of the unit, or
- Round the requirement up (not down) to the next whole unit

Exemptions

- Affordable housing projects that use certain public financing sources and provide at least 20% of units rent-restricted and income-restricted affordable at 60% AMI or below
- For continuum of care / assisted living facilities, only the housing portion of the price of a unit must be affordable to the target income level (the housing + services price could exceed an affordable price for the target income level).

Design standards

- In single structure developments, affordable units shall be located proportionally throughout the floors of the building compared to market rate units. In buildings of more than 10 stories, affordable units may be distributed throughout only the bottom 2/3 of the building. Affordable units should not be on floors master-leased to a short-term rental provider.
- Externally and from all shared spaces, affordable units should not be distinguishable and should be architecturally equivalent. Interior layouts, designs, materials, and finishes should be functionally equivalent but do not have to be identical
- Unit types (size and # of bedrooms/bathrooms) for affordable units should be proportional to market rate units, except if the developer chooses to provide more family/large household affordable units (3 and 4 bedrooms). In all cases, units must meet minimum size standards.
- Affordable units shall share the same entrances, common areas and amenities as market rate units.



Effective date

- Complete land use applications submitted 1/1/20 – 6/1/20 subject to new policy provisions except that in-lieu fee is the only compliance alternative available.
- Complete land use applications submitted 6/1/20 and later have access to all compliance alternatives.

Updating the Policy

- Initial revisit: Staff will conduct an analysis of the policy's performance, including whether to increase rental requirement (non-subsidized option) from 8% to 9% and whether to make changes to compliance alternatives to increase on-site production compared to in-lieu fees, and bring any recommended changes to Council within 18 months of the policy's effective date.
- Conduct a comprehensive review of the policy every 3-5 years, including an analysis of whether inclusionary requirements remain appropriate given longer term economic trends. Don't try to update the policy every time the market changes.
- If the on-site requirement is increased, increase the in-lieu fee by a proportionate amount to maintain the incentive for on-site compliance.
- Update in-lieu fees annually based on construction cost index.