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**ZONING CODE TEXT AMENDMENT**

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<i>Initiator:</i>	Council President Bender
<i>Introduction Date:</i>	February 9, 2018
<i>Prepared By:</i>	<u>Shanna Sether</u> , Principal City Planner, (612) 673-2307
<i>Specific Site:</i>	Not applicable
<i>Ward:</i>	All
<i>Neighborhood:</i>	All
<i>Intent:</i>	Amending regulations related to inclusionary zoning.

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**APPLICABLE SECTIONS OF THE ZONING CODE**

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- Chapter 520, Introductory Provisions Chapter 521, Zoning Districts and Maps Generally
- Chapter 535, Regulations of General Applicability

The following chapters were also introduced: Chapter 525, Chapter 527, Chapter 530, Chapter 536, Chapter 537, Chapter 541, Chapter 546, Chapter 547, Chapter 548, Chapter 549, Chapter 550 and Chapter 551. However, staff is not recommending changes to these chapters as part of this amendment and is therefore recommending returning them to the author.

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**BACKGROUND**

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On February 9, 2018, Council President Bender introduced subject matter to establish an inclusionary zoning (housing) ordinance. Inclusionary housing is intended to promote affordable housing and to fulfill the goals of the city's housing policies by ensure that moderately-priced housing is provided in mixed-income developments.

Since 2003, the City of Minneapolis has implemented housing policy that requires affordable housing units in residential and mixed-use projects with 10 or more units that receives financial assistance from the city. The policy was expanded in 2016 to apply the affordable housing requirement to projects receiving pass-through funding for purposes other than environmental remediation. In 2017, the policy was updated to include residential development of 10 or more units proposed on property or a portion of property that was owned by the City of Minneapolis – CPED.

The City has engaged a consultant, Grounded Solutions Network, to explore policy options for a potential inclusionary housing policy. The scope of work includes financial feasibility analysis to inform policy options, as well as policy research regarding national best practices, pros and cons of different policy choices, and case studies of three other cities' policies. A team of City staff from Community Planning and Economic Development (CPED) Housing, Development Services, and Long-Range Planning, City Attorney's Office and Finance has worked with the consultants. Grounded Solutions Network solicited input from private developers and affordable housing advocates in this process.

The Grounded Solutions Network report was presented to the Housing Policy & Development Committee of the City Council on August 22, 2018. The report is intended to inform a policy framework to be considered by the City Council concurrent with the Minneapolis 2040 Comprehensive Plan, to support the affordable housing goals of the plan. A final policy would require additional analysis and development in 2019.

The inclusionary housing zoning code text amendment is intended to encourage mixed-income housing in what would otherwise be market-rate residential or mixed-use developments. In particular, the amendment is intended to apply to development projects where property is rezoned to allow for multiple-family dwellings and/or the development capacity is increased by 60% or more of what would otherwise be allowed on the same property. The allowance or increase in residential development capacity would be applied for through one or more of the following land use applications: rezoning, variance to increase the maximum floor area ratio (F.A.R.), density bonuses, floor area ratio premiums (Downtown) and planned unit development (PUD) alternatives.

The City of Minneapolis is in the process of amending the comprehensive plan. In many places, the draft plan allows for greater residential and mixed-use building density in comparison to current policy. This proposed zoning code text amendment is further supported with the proposed updates to the Unified Housing Policy, on the same city council hearing track. The updated Unified Housing Policy draft states that residential rental projects shall be subject to one of the following:

- At least 10% of the units shall be affordable to and occupied by households with an income at or below 60% of the AMI. Projects that meet this affordable housing standard are not eligible for City financial assistance.
- At least 20% of the units shall be affordable to and occupied by households with an income at or below 50% of the AMI. Projects that meet this affordable housing standard are eligible to apply for City financial assistance.

The minimum affordability shall be 20 years if no City financial assistance is provided. The minimum affordability period shall be 30 years if City financial assistance is provided or the project is on land purchased from the City.

The City defines affordable housing as rental or for sale housing that costs less than 30% of household gross income. The U.S. Department of Housing and Urban Development defines area median income (AMI), which are defined at the regional level, to set rent and income eligibility limits. The following table states the area median income by percent and affordable rates for rental housing.

**2018 Rental Housing\***

# of Bedrooms	30% AMI	50% AMI	60% AMI	80% AMI
<b>Efficiency</b>	\$495	\$826	\$991	\$1,321
<b>1 Bedroom</b>	\$531	\$885	\$1,062	\$1,416
<b>2 Bedrooms</b>	\$636	\$1,061	\$1,273	\$1,697
<b>3 Bedrooms</b>	\$735	\$1,226	\$1,471	\$1,961

<b>4 Bedrooms</b>	\$820	\$1,367	\$1,640	\$2,187
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\*Rents include tenant paid utilities

**What is the reason for the amendment?**

The City of Minneapolis is growing faster than it has since 1950 and Minneapolis is now a majority renter population with more than 85,000 households<sup>1</sup>. Since 2000, renter’s incomes have reduced by 14% while housing costs have increased 11%. Minneapolis has less affordable housing than it did 15 years ago and production of affordable units is not keeping pace with their loss. The majority of cost-burdened households<sup>2</sup> have incomes of less than 50% of the area median income and are disproportionately communities of color. Housing stability is a major concern and evictions disproportionately impact communities of color. Residents in challenged rental housing leads to worsening housing conditions and property management practices. The amendment is intended to encourage mixed-income housing in what would otherwise be market-rate residential or mixed-use developments.

**What problem is the amendment designed to solve?**

The amendment is intended to encourage mixed-income housing in what would otherwise be market-rate residential or mixed-use developments. In particular, the amendment is intended to capture investment for projects where the multiple-family residential is not presently allowed by zoning or where development capacity is increased by more than 60% of what would otherwise be allowed for a project. The City of Minneapolis is in the process of amending the comprehensive plan and the draft plan allows for greater residential and mixed-use building density from what is presently allowed. This zoning code text amendment is further supported with the proposed updates to the Unified Housing Policy, on the same city council hearing track. The proposed policy would require 10% of the total dwelling units in a project be provided at rents affordable at 60% of the area median income, unsubsidized. The updated Unified Housing Policy would allow for subsidy where at least 20% of the total dwelling units in a project would be provided at rents affordable at 50% of the area median income.

**What public purpose will be served by the amendment?**

Housing policies in the *Minneapolis Plan for Sustainable Growth* include increasing housing units that are affordable to low and moderate-income households. It is uncommon for mixed-income developments to be proposed in the City of Minneapolis; typically, residential developments are either market-rate or affordable projects. The proposed amendment would encourage mixed-income developments with a combination of market-rate and affordable units of comparable space, number of bedrooms, location and square footage. Minneapolis has less affordable housing than it did 15 years ago and production of affordable units is not keeping pace with their loss. Based on analysis of major development projects between 2015 and October of 2018, there were 28 projects with a total of 3,642 dwellings that would have been subject to Inclusionary Housing. Between 364 and 728 dwellings would be affordable at 60% of the area median income if Inclusionary Housing had been applied to these projects.

**What problems might the amendment create?**

The development community has expressed concern about the cost of providing affordable housing in what would otherwise be market-rate residential and mixed-use development. They have additionally stated concern about elements of the inclusionary housing analysis, qualifying for subsidy and the additional time to complete the process for subsidy, which further adds to the development costs of a project.

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<sup>1</sup> U.S. Census Bureau, American Community Survey 1-year estimates

<sup>2</sup> Cost burdened is defined as a spending greater than 30% of household income on housing.

It is a priority of the city to develop an inclusionary housing program that does not curtail the production of market rate housing. Staff recognizes that policies placing an increased burden on new housing production could negatively affect affordability. And it's important to keep in mind that, under an inclusionary housing policy, the number of affordable units produced by the policy depends, in large part, on the number of market rate units being produced.

Staff has proposed parameters for inclusionary housing to apply to development projects where property is rezoned to allow for multiple-family dwellings and/or the development capacity is increased by 60% or more of what would otherwise be allowed on the same property. Staff has analyzed the major development projects between January 2015 and October 2018, and found that 28 projects or 25% of major development projects would have exceeded development capacity by more than 60%. 13 of the 28 major development projects have been approved in the first 10 months of 2018. Staff has developed a working group to streamline and find touchpoints between the Tax Increment Financing process and the land use application process to gain efficiencies.

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## TIMELINESS

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### **Is the amendment timely?**

An inclusionary zoning ordinance was introduced and referred to staff in 2016 and 2018 to further expand the City's inclusionary housing policy.

The City engaged Grounded Solutions Network to explore policy options for a potential expanded inclusionary housing policy. The scope of work includes financial feasibility analyses to inform policy options, as well as policy research regarding national best practices, pros and cons of different policy choices, and case studies of three other cities' policies. A team of City staff from Community Planning and Economic Development (CPED) Housing, Development Services, and Long-Range Planning, City Attorney's Office and Finance worked with the consultants on this report. Grounded Solutions Network solicited input from private developers and affordable housing advocates in this process.

The timing of this text amendment is supported with the parallel efforts to update the City's Unified Housing Policy to inform a policy framework to be considered by the City Council concurrent with the Minneapolis 2040 Comprehensive Plan and to support the affordable housing goals of the plan.

### **Is the amendment consistent with practices in surrounding areas?**

The Grounded Solutions Network report provided three case studies in their report, Washington, D.C., Chicago, IL and Seattle, WA. The full analysis can be found in the [report](#) online.

#### **Washington, D.C.**

Washington, D.C. enacted a mandatory inclusionary zoning program in 2006, which became effective in 2009. The program applies to projects of 10 units or more of new construction or buildings with 50% increased gross floor area, resulting in at least 10 dwelling units. The quantity of affordable units is based on a number of factors, including construction type, ownership or rental, and these projects receive a density bonus to off-set costs. The policy generally applies city-wide, however, there are locations where the IZ program would not make sense, including near their downtown and Union Station where development is maximized and neighborhoods near historic districts where increased density would not be compatible. The affordable units are required to remain affordable for the life of the project and Washington D.C. does not have an in-lieu fee option.

As of September 30, 2017, 594 inclusionary units have been produced within 73 developments and another 797 units are projected as of March 2018. A total of 14,419 dwelling units in 165 projects, over the same period have been constructed. Therefore, 10% of the new dwelling units since 2009 meet the affordable requirements in the IZ program (Grounded Solutions Network, 2018).

### **Chicago, IL**

Chicago adopted the Affordable Requirements Ordinance in 2003 and applied to development receiving financial assistance or discounted land from the city, similar to the existing policy in Minneapolis. The ordinance was revised in 2007 to include projects that sought a rezoning to allow for residential uses, where previously prohibited and in planned unit developments within the downtown area. A minimum of 10% of the units are required to be affordable or 20% of the units, if the city is providing some form of financial assistance. The City of Chicago provides an option to pay a per-unit fee to the city's Affordable Housing Opportunity Fund. From 2007 through the first quarter of 2018, the Affordable Requirements Ordinance applied to 162 projects and produced 596 units and collected \$83 million in in-lieu fees (Grounded Solutions Network, 2018).

### **Seattle, WA**

Seattle instituted an incentive-based program in 1985 and switched to a mandatory affordable housing program in 2016. The affordable housing requirements are applied when either the City or a developer rezones property that increases the maximum height or floor area ratio permitted on the property. Affordability requirements are based on cost areas, determined by independent rental market survey data, the development capacity increase percentage and ownership or rental status. Housing provided through the performance option is required to remain affordable for 75 years. Seattle has set a goal of creating 'at least 6,000 new rent- and income-restricted homes for low income people by 2025, or roughly 665 units per year' (Grounded Solutions Network, 2018).

### **Are there consequences in denying this amendment?**

The consequences of denying this zoning code text amendment will deprive the City of utilizing an additional tool to encourage production of affordable housing. While this zoning code amendment will not solve the City's affordability problem by itself, it represents one additional tool as part of a comprehensive list of strategies. Based on analysis of major development projects between 2015 and October of 2018, there were 28 projects (25% of major development projects) that would have been subject to Inclusionary Housing. Between 364 and 728 dwellings would be affordable at rates between 60% and 80% of the area median income if Inclusionary Housing had been applied to these projects.

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## **COMPREHENSIVE PLAN**

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The amendment will implement the following applicable policies of *The Minneapolis Plan for Sustainable Growth*:

On August 22, 2018, the Housing Policy & Development Committee of the City Council directed CPED staff to return to the Housing and Policy Development Committee in November 2018 with recommended amendments to the Unified Housing Policy to support an inclusionary zoning ordinance. Staff has identified the following applicable policies that support an amendment for Inclusionary Housing in the zoning code:

### **Housing Policy 3.3: Increase housing that is affordable to low and moderate income households.**

- 3.3.1 Continue to utilize housing development finance programs to foster growth in the city's affordable housing stock in all parts of the city.

- 3.3.2 Utilize city housing resources and partnerships to preserve the affordability of existing affordable housing.
- 3.3.3 Work to provide affordable housing for both rental and ownership markets at a broad range of income levels.
- 3.3.4 Support policies and programs that create long-term and perpetually affordable housing units.
- 3.3.5 Support the development of housing with supportive services that help households gain stability in areas such as employment, housing retention, parenting, and substance abuse challenges.
- 3.3.6 Use planning processes, requests for proposals for city owned properties, and other community engagement processes to engage in dialogue with community participants about affordable housing and its compatibility with all Minneapolis neighborhoods.
- 3.3.7 Increase low-income family access to ongoing rental assistance.
- 3.3.8 Foster partnerships with housing developers, financial institutions, faith communities and others to extend the city's capacity to create affordable housing.
- 3.3.9 Partner with other municipalities, along with county, metropolitan, state and federal agencies and policymakers, to develop a regional strategy for increasing the supply of affordable housing, supported by a more predictable, long-term revenue stream.

**Housing Policy 3.6: Foster complete communities by preserving and increasing high quality housing opportunities suitable for all ages and household types.**

- 3.6.1 Promote the development of housing suitable for people and households in all life stages that can be adapted to accommodate changing housing needs over time.
- 3.6.2 Promote housing development in all communities that meets the needs of households of different sizes and income levels.
- 3.6.3 Maintain a healthy supply of multifamily ownership and rental housing, and promote the development of alternative forms of homeownership such as cooperative housing and cohousing.
- 3.6.4 Provide and maintain moderate and high-density residential areas, as well as areas that are predominantly developed with single and two family structures.
- 3.6.5 Promote accessible housing designs to support persons with disabilities and the elderly.
- 3.6.6 Actively enforce anti-discrimination laws and act to promote Fair Housing practices.

**Economic Development Policy 4.8: Continue to pursue the removal of barriers that prevent residents from holding living wage jobs and achieving economic self-sufficiency.**

- 4.8.1 Improve the affordability and variety of housing choices for Minneapolis workers.

This amendment will be consistent with the above policies of the comprehensive plan and Unified Housing Policy.

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## **RECOMMENDATIONS**

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The Department of Community Planning and Economic Development recommends that the City Planning Commission and City Council adopt staff findings to amend Title 20 of the Minneapolis Code of Ordinances, as follows, and further recommends that Chapter 525, Chapter 527, Chapter 530, Chapter 536, Chapter 537,

Chapter 541, Chapter 546, Chapter 547, Chapter 548, Chapter 549, Chapter 550 and Chapter 551 be returned to the author:

**A. Text amendment to add regulations related to inclusionary housing.**

Recommended motion: **Approve** the text amendment to add regulations related to inclusionary housing.

Chapter 520 related to the Zoning Code: *Introductory Provisions*

Chapter 535 related to the Zoning Code: *Regulations of General Applicability*

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**ATTACHMENTS**

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1. Ordinance amending Chapter 520 related to the Zoning Code: Introductory Provisions
2. Ordinance amending Chapter 535 related to the Zoning Code: Regulations of General Applicability
3. Public comments