

EDEN PRAIRIE HOUSING TASK FORCE MINUTES

Weds Sept 11, 2019

HTF Members	Chair Joan Howe-Pullis Vice Chair Lyndon Moquist Carol Bomben Pedro Curry Terry Farley Marlene Fischer Mohamed Nur Joan Palmquist Anne Peacock Ken Robinson Emily Seiple
Staff	Jonathan Stanley, Housing and Community Services Manager Amanda Pellowski, Community Development Administrative Assistant
Guests	None

I. WELCOME AND RECAP FROM LAST SESSION

Chair Howe-Pullis called the meeting to order at 5:37. Absent were Members Curry and Nur.

Howe-Pullis welcomed Task Force members and opened the floor for reflection and questions from the previous meeting. Vice Chair Moquist stated he's concerned adopting a policy will put a burden on developers and be contrary to the goal of attracting competition. Close attention should be paid to results in other cities and whether the policies are helping accomplish their goals. The studies shared with the Task Force are mostly about public financing and don't address owner-occupied. He agrees with increasing affordable housing, but is concerned about creating a perception that Eden Prairie is difficult to work with. Howe-Pullis stated the way to make space for that, because it's a directive in our 2040 plan, is to implement a policy so there's a level playing field for all developers. Not having a policy is riskier for developers because they may not have all the information they need to make a deal that's workable. She's heard from City staff that haggling during negotiations causes problems for developers, who end up spending money when they may not even make a deal. They wouldn't have to do that if they knew up front what the City's policy is. Palmquist stated having options provides a more inclusive experience for developers.

Howe-Pullis asked if Moquist is concerned adopting a policy will discourage developers from working with Eden Prairie. Moquist responded that he knows a number of developers who avoid working with Eden Prairie and feel the City doesn't want them to be part of the affordable housing solution. Howe-Pullis asked Moquist to gather more information about those developers' perceptions and to find out if they have creative solutions to recommend. Moquist suggested inviting developers to a Housing Task Force meeting to get their opinions before a charter is created. Members agreed that would be a good idea.

Moquist believes in creating affordable housing for younger generations and diverse communities, but prefers to do it in a way that's constructive and will accomplish the 2040 goal. Seiple stated it's not possible to accomplish everything with an inclusionary housing policy, even with a perfect policy. Fischer agreed with Moquist but believes a policy is needed. She'd like the Task Force to be careful when determining what to require compared to other communities and stated the Task Force needs to determine how to handle situations when the builder doesn't ask for anything from the City. Farley referred to a past discussion about giving the City tools to negotiate, such as in lieu payments, which would be an important component of the policy. Moquist agreed with the idea of giving options and stated there needs to be a fair playing field. Howe-Pullis referred to the Aspire plan and Eden Prairie's vision of ensuring new development has inclusionary, affordable housing. Even though it may seem arbitrary to a developer its part of Eden Prairie's vision.

Stanley asked if members had reached out to anyone in the affordable housing field. Palmquist spoke with the MN Assistant Commissioner for preventing homelessness and was able to get many contacts to use as resources when the group tackles specific issues such as land trusts, ownership versus rental, and tenants' rights.

II. LATEST PROPOSAL & COMPARISON OF EP INCLUSIONARY FRAMEWORK WITH REGIONAL PEERS

Stanley stated the group's goal is to have a meaningful presentation for the upcoming Council Workshop. The presentation should have 3 components: informing the Council of what the task force has studied to date, giving a recommendation for inclusionary housing, and giving a roadmap of where the task force may next be headed.

Stanley reviewed slides that merge parts of the previous proposal with suggestions from the task force. The policy as written applies to 10 units or more for both the rental and the owner-occupied categories. Stanley asked the group to consider whether 10 units feels like the right number. The current proposal for rentals gives the developer a choice of 5% of units at or below 30% of Average Median Income, 10% of units at or below 50% AMI, or 15% of units at or below 60% AMI. That's on par with what other cities are doing. Subsidized projects might be subject to additional negotiation based on the City's recent experience with a TIF project. The proposal as written states that requirements remain in perpetuity. The developer the City most recently worked with is the first to push back on perpetuity. Otherwise the City has been successful in including it in negotiations.

Stanley asked for thoughts on in lieu payments and whether they should be based on size or value of homes. Moquist asked how it was handled at Eden Gardens and how inclusionary housing applied to that development. Stanley stated Eden Gardens was developed before inclusionary housing negotiations began. However, it was a TIF project which is usually 20% at 50% of AMI. Moquist believed there was a goal to make Eden Gardens affordable, but wasn't certain it was accomplished. There was some accomplishment in that it brought in a fair number of residents that probably would have bought elsewhere. There were some variances he was surprised to see approved on that project. He emphasized the importance of staying fair and consistent. Howe-Pullis pointed out that adopting a policy would help with consistency.

Stanley reviewed the chart comparing the policies of nearby communities with the proposed policy for Eden Prairie added. It was asked at a previous meeting what happens when a developer doesn't ask for any subsidy or discretionary approvals from the City. Stanley stated that very rarely happens. The City is confident when a development is proposed or a change to the comprehensive plan is required for the development, those can be triggers to apply inclusionary housing even if there's no

subsidy request. Stanley referred to the chart and compared the development size and number of units for each city. He stated currently, especially in Eden Prairie, it's very rare to see a rental development with fewer than 10 units. He encouraged the group to think about owner-occupied households. There are still a handful in the community around that size. Moquist stated adding affordability to owner-occupied will drive up the cost of the other units and developers will struggle to make money.

Farley asked why the rehabilitation of rentals isn't addressed. Stanley wasn't sure what the trigger for inclusionary housing would be other than a city contribution to the redevelopment. Farley agreed an inclusionary housing policy could be triggered if public financing is requested to rehabilitate an apartment building. Palmquist asked if anything would be triggered if ownership of the building changed. Stanley answered it would not automatically and stated that relates to the area of tenant protection.

Seiple asked for clarification on TIF projects. Stanley responded a housing TIF district can run 26 years. It doesn't have to run that long but typically does. The requirement under state law is 20% of the units are affordable at or below 50% of AMI. At the end of 26 years there are no longer any affordability restrictions. Howe-Pullis asked if it's possible to keep a small portion after the TIF ends in order to create a level playing field.

Stanley reviewed each community's terms and noted Eden Prairie is proposing in perpetuity. Affordability targets are consistent across communities in the rental domain, so the city isn't pushing the percentage of affordability or AMI levels except by providing an option to do fewer units at 30% AMI. This is because the City is proposing options for affordability levels. For ownership a small change of moving to 115% of AMI is proposed. That percentage interests City staff because it allows for use of some TIF money to finance development. Moquist asked what 115% would mean. Stanley replied 100% of AMI in 2019 for a family of four is \$100 thousand, so calculations would be based on that. In terms of a home price it's around \$330-340 thousand.

Stanley reviewed the comparison of in lieu fees between cities and cost offsets that are being used. Eden Prairie has historically classified projects as either TIF or not TIF. That's not a robust tool for creating affordable housing. Palmquist asked how the proposed percentages for Eden Prairie were chosen. Stanley replied those numbers were reflected peer policies and may be realistic in regards to what a project can handle. Stanley referenced analysis the City's financial advisor undertook of a recent development that showed that the lower the affordability level chosen the lesser the hit to the project. According to their estimates the cost if they had chosen 5% at 30% AMI would have been just under \$3 million over the term of a TIF district. 10% at 50% would have been closer to \$4 million. 15% at 60% would have been close to \$5 million (editor's note: these figures were misstated. The actual figures were just over \$2 million for 5% at 30%, just under \$3 million for 10% at 50%, and approximately \$3.5 million for 15% at 60% AMI). That's money coming out of developer profit. Other cities are finding ways to fill that gap. Moquist stated that's in addition to \$60-70 million of risk the developer is already taking on. Howe-Pullis asked if Elevate was a TIF project not in perpetuity. Stanley stated Elevate was a TIF project and they chose 20% at 50% of AMI.

Seiple asked if there's resistance to using a density bonus. Stanley replied there isn't much information about density bonuses. He wasn't sure if that's because projects rarely come up against the threshold. Parking is a sensitive issue. The City has a suburban parking density requirement but has adjusted it on a number of projects as a way of negotiating. Farley stated the in lieu fee sounded

like an option developers would be interested in. Stanley responded the concept of in lieu fees is new. It's not being proposed for rentals because there's a fear that if it's not perfectly calibrated, developers will always choose to pay the fee and the City won't reach its affordable housing goal.

Howe-Pullis asked if in perpetuity is proposed for rentals only, not owner-occupied. Stanley responded it could be applied to owner-occupied if a deed restriction is put on a property. Edina is using deed restrictions. Howe-Pullis was concerned about owners eventually being able to sell the property. Moquist stated in Edina a person buying a property with a deed restriction might be offered a very low down payment or other consideration, but any profit down the road would have to be paid back. Some owners took a hit because of that. Stanley agreed it's important for prospective owners to understand restrictions.

Stanley moved on to discuss proposed rental framework. City staff has considered the benefits of breaking TIF and non-TIF apart. Projects not requesting public subsidy would be asked to do 5% at 30% of AMI, 10% at 50%, or 15% at 60%, durations in perpetuity, and any cost offsets would be contemplated based on the demonstrated gap. If developers balk, the City can reconsider the gap and discuss what could be done to close some of it. Stanley requested the group's opinions. Farley asked opinions about also making the in lieu fee and in perpetuity negotiable, to a point, to give the City some additional tools. Howe-Pullis expressed concern that making those items negotiable could keep the City even farther from reaching the 2040 goals. Farley suggested the in lieu fee go to a fund dedicated to helping inclusionary housing.

Moquist asked how the 20/25 year terms were determined. Stanley answered it might be attributed to term matching to other affordability products. He believes the 25 and 26 are TIF related. Moquist indicated he'd be interested in learning what other communities, outside of our neighbors, are doing and whether they use in perpetuity. He's concerned about being an outlier and adopting an untested policy. Seiple stated Maryland has been using it for decades. Howe-Pullis shared her concern at the loss of 220 affordable units in Eden Prairie. Stanley mentioned a study conducted by PROP that looked at affordable housing gains and losses over the last two years. The study showed a significant loss of affordable housing in Eden Prairie with more modest gains.

Stanley moved on to discuss projects that request TIF or other subsidies. Per TIF district regulations they have 20% affordable at 50% of AMI. Eden Prairie is proposing negotiation of additional affordability, such as what was done with Paravel. The City negotiated some units at 80% and 100% of AMI. Even though these are at higher AMI levels, it controls rent inflation for 26 years. Any additional cost was negotiated based on demonstrated gaps. The City had full visibility into the developer's numbers, so tweaks could be made as needed based on the developer's amount of return.

Stanley stated when a developer is using low income housing tax credits that are not a City subsidy, those would meet basic affordability requirements. In perpetuity is the concept that the City would ask the developer at the end of a TIF or tax credit compliance period to select one of the 3 bands to be their in perpetuity amount. The developer begins at 20% at 50% AMI and then at the end of 26 years can select either 5% at 30%, 10% at 50%, or 15% at 60%. Howe-Pullis asked if that means fewer affordable units once the TIF ends. Stanley confirmed. Moquist believed this level of transparency would make negotiation easier.

Moquist shared his concern that 10 units is unrealistic. He prefers 20 units. Howe-Pullis asked how much opportunity there is for 20 unit projects in Eden Prairie. Stanley stated there's not much. He's been surprised at the number of developments in the last six months that have been between 10-15 units. That seems to be the majority of what developments will be going forward. Stanley also stated City Council was lukewarm to the idea of owner-occupied inclusionary housing in early discussions. They found rentals more palatable. Payment in lieu was initially a non-starter but became something they were willing to discuss.

Howe-Pullis suggested taking a poll on the question of 10 units: Robinson was in favor provided it's combined with in lieu payments, Palmquist was in favor, Bomben was in favor, Farley was in favor, Peacock was in favor but would like to get feedback from developers.

Stanley moved on to review the slide about cost offsets. For the Council workshop it will be important to convey that there are tools that haven't been explored yet that the City may need in order to make progress on the goals set forth in Aspire. Robinson asked which tools will be recommended to the Council and if there are more that could be added. Stanley suggested telling the Council that the Task Force is exploring which tools to recommend.

Stanley moved on to discuss owner-occupied framework. He asked opinions about using the size or value of homes in a new development to determine in lieu options. Palmquist stated size or price could work equally well if the percentages are right. Moquist added this would be a way around the 10 unit issue. Robinson questioned if the amount should be higher than \$15 per square foot and asked what those amounts would look like.

III. SMALL GROUP EXERCISE – CONSIDERING PARTICULAR ELEMENTS

The Task Force agreed to skip this agenda item.

IV. CONSENSUS FINDING/CITY COUNCIL WORKSHOP

Howe-Pullis asked about content for the Council Workshop. Stanley stated the City would like to finalize an inclusionary housing policy as soon as possible, but that won't happen at the workshop. Instead the Task Force will provide some direction, will let Council members know details are being sorted out, and that feedback is being requested from developers. Howe-Pullis pointed out that questions should be solicited from Council so the Task Force can research them. Stanley shared that City Council has in the workshop setting heard about an inclusionary housing policy on two occasions. Palmquist asked why the policies weren't approved. Stanley replied there was a decision to create the Task Force, and that details for the owner-occupied section were never agreed upon.

Moquist would like to see more data about communities that are similar to Eden Prairie. Stanley shared there aren't many more out there, but there are a few others who are working on policies. Farley suggested looking at what other cities do for projects that aren't requesting public subsidy but do make some sort of request. She asked if a housing trust fund should be discussed. Howe-Pullis agreed that a trust needs to be designated for in lieu funds. Palmquist stated the policy mostly applies to rentals and that much more research and thought needs to be put into the owner-occupied piece. Stanley asked the group for their opinion on including owner-occupied in the policy. Several task force members replied that it should be included in the policy. Howe-Pullis stated it will be important to include owner-occupied for the City to reach the 2040 goal. Seiple added that the data for Aspire largely represented ownership. That seems to be a huge part of our community so it

makes sense that our inclusionary housing policy will need to address owner-occupied projects to be effective, even though it may take a while to figure out the right policy.

Moquist asked how long other cities have had policies in place. Stanley guessed around three to four years. Palmquist asked if that's long enough to be able to see any effects. Stanley responded it isn't enough time to do the elaborate kind of study that would be needed to gauge true impacts on development activity.

Howe-Pullis asked if there was a consensus around the 3 levels on the proposed policy. There were no objections. She confirmed the task force is in favor of keeping the number to 10 units in the policy. She also confirmed the group recommends what's in the packet for housing types. Farley asked if they are also recommending rehabilitation. Howe-Pullis responded they are recommending it for rental but it needs further definition. Howe-Pullis confirmed the task force is in favor of in perpetuity. Moquist asked to pause on that until the ramifications are understood. He'd like to get developer feedback. Howe-Pullis suggested adding to the chart under ownership that more research needs to be done. She also suggested changing in lieu fees from TBD, and instead recommending they be included in the policy but with the caveat that more research will be done.

Howe-Pullis encouraged the group think about who they'd like to bring in to speak at future meetings.

V. ADJOURN

Howe-Pullis adjourned the meeting at 7:35pm.