

EXHIBIT K

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DENSITY AND THE NEED FOR AFFORDABLE RENTS.

There is a crisis in the lack of affordable housing in the metro area. Approximately 126,000 low income households pay more than half their income for housing when the federal standard is that no household should pay more than 30%.¹ Housing with rents affordable to these households is disappearing at an alarming rate.² The Metropolitan Council estimates that just to keep up with the need for housing for new low income households, without even addressing the 126,000 unit backlog, 8.3% of all new housing units built in the next decade should be affordable to households at 50% of Area Median Income (AMI) and 16.5% should be affordable at 30% of AMI.³

Currently, the 30% AMI income for a family of four is \$27,100. Median annual salaries for cashiers, child care workers, janitors, taxi drivers and bank tellers, for instance, are below this level. Median salaries for security guards, nursing assistants and receptionists are only slightly above the 30% AMI level.⁴

Metro Cities are required to adopt programs and other specific actions which “will provide” for each city’s share of the metro need for low income housing.⁵ Each decade, the Metro Council assigns a low income need number to each city, setting out the number of new affordable units to be produced over the decade to meet the needs of new low income households. For the current decade, the City requested that the Metro Council increase the projected city growth and therefore the need for new affordable housing in the City. The Council agreed and the City in its current Comprehensive Plan agreed that the resulting need for affordable housing was 312 new units.⁶ To date, not a single affordable unit has been produced in this decade, while 97 deeply affordable units have been removed from Lowry Grove.

The City’s Comprehensive Plan designated Lowry Grove for redevelopment, replacing the city’s only deeply affordable units with high density housing. Once that Comp Plan designation was made, it was inevitable that Lowry Grove would be redeveloped, its deeply affordable housing lost, and its lower income and disproportionately minority residents displaced.

¹ HUD Comprehensive Housing Affordability Strategy (CHAS) data 5 year data 2010-2014, https://www.huduser.gov/portal/datasets/cp.html#2006-2014_data

² <http://www.mhponline.org/publications/sold-out>

³ Metropolitan Council Housing Policy Plan, pgs. 151-153.

⁴ See <http://www.fhfund.org/fact-sheets/> “Working Doesn’t Always pay for a Home.”

⁵ Minn. Stat. § 473.859 Subd. 4.

⁶ Comprehensive Plan at 2-32.

The Comprehensive Plan specifically address this displacement and housing loss. It says the City will “ensure” that Lowry Grove residents” are assisted in their relocation to other housing that meets their needs in terms of cost, location...”⁷ It also provides that the City will take steps to “ensure...adequate and affordable replacement housing...ideally located in St. Anthony.”⁸ The City did nothing to implement the first promise of adequate relocation. It is now up to the City to decide whether it will take the steps necessary to make good on the second, replacement housing, promise.

As Stacie Kvilvang, the City’s financing consultant, explained in the City’s August 10th work session on affordable housing, households with low incomes can afford only rents that are far below market rate rents that are sufficient to pay for the debt required to construct apartments that meet modern demands and construction standards. As she pointed out, the key to making new apartments affordable to low income households is minimizing the debt that has to be covered by residents’ rents.

Aeon and The Village are committed to truly replacing the units lost from the Lowry Grove redevelopment. This is the goal the City committed to in its current Comprehensive Plan Permitting adequate density on the site is critical to achieving this goal in two ways.

First, there are substantial fixed costs associated with this development that are common to most in-fill developments: land acquisition and associated costs, infrastructure (streets, water management, etc.), and pollution remediation. These costs are fixed no matter how many units are built on the site. And here, the costs are substantial.

- The purchase price of the former Park site was \$6,000,000. The Village was not the only developer willing to pay that price.⁹ That does not include the cost of the Bremer site, the payments to former residents, site inspections and design work, and other related land acquisition costs. All told, the land acquisition cost is more than \$10,000,000.
- Because of past uses on both the Park site and the Bremer site, significant environmental remediation must occur. The exact nature will be determined with and approved by the Minnesota Pollution Control Agency (MPCA), but will likely include a mix of removing contaminated soils, monitoring and venting wells, and other remediation features. Once the remediation is complete, the entire community will benefit, but the expected costs of the remediation are more than \$1,000,000.
- For this project, there is also significant stormwater management, grading, road construction, and related infrastructure costs.

The more units there are on the site, the lower these fixed costs are per unit, the lower the mortgage payment per unit, and therefore the lower the rent that must be charged per unit.

⁷ Comprehensive Plan at 2-24.

⁸ *Id*

⁹ Documents produced by the former owner during litigation included 9 offers.

Second, as Ms. Kvilvang pointed out, the typical affordable housing development receives assistance from a variety of sources to “write down” the amount of mortgage debt and therefore the rents necessary to pay back that debt. She indicated that nearly all of these sources were highly competitive, with most proposals losing out in the annual competition for these funds. She also indicated that the exception was tax increment financing (TIF), which is within a city’s control and which has been used to assist recent St. Anthony affordable developments.

The idea behind TIF is simple – redevelopment occurs on an “underutilized” site. Redevelopment results in a large increase, the increment, in the taxes generated from the site. The increased amount of taxes generated by the new development, and only the amount of the increased taxes, can be used to help pay for the cost of the development, thus writing down the mortgage debt that would otherwise be required and making the project financially feasible. The City continues to collect at least the level of taxes previously generated from the site, and also receives at least 10 % of the increment. So TIF does not impose a cost on city taxpayers.

Because most of the sources available to write down project debt are scarce relative to the need, the typical project gets only enough of these resources to make the housing available at 50% to 60% of AMI; whereas, as the Metropolitan Council’s projections indicate, the greatest need is for rents affordable at closer to 30% of AMI. Further, true replacement of the Lowry Grove units requires a substantial number of new units affordable at 30% of AMI.

The Lowry Grove redevelopment is in a unique position to provide for a significant number of units with rents affordable to households with incomes at the 30% of AMI level. The tax increment generated by affordable housing is relatively modest because such housing is taxed at a lower rate than market rate housing. But because the proposed Aeon development will be part of a much larger market rate development, a portion of the increment from that development should also be available to further write down rents.

The relationship between affordability and permitted density is straightforward. The more units permitted on the Aeon site, the lower the fixed costs that have to be paid for by each apartment. The more market rate units permitted, the more tax increment generated and the more potentially available to write down affordable rents in the Aeon development. Further, more market rate units also mean lower fixed costs which must be covered by the rents from each market rate apartment; the less tax increment needed to make the market rate projects financially feasible; and the more increment therefore potentially available to write down affordable rents.

As described multiple times in its EAW and Record of Decision, the City initially approved The Village’s projects at significantly higher densities than were finally proposed. For instance, in response to the Metropolitan Council’s note that the densities proposed were higher than those permitted in the Comprehensive Plan, the City responded that it would amend the Comprehensive Plan to conform to the proposed densities. However, the City’s official attitude toward the project changed when the Lowry Grove lawsuit parties

announced a settlement that would provide deeply affordable housing on the site, available to Lowry Grove displacees. Then, for the first time, density became an issue. The reduction in density required to respond to the City's newly expressed concerns will obviously substantially reduce the tax increment available from the market rate housing to reduce rents on the 2401 Lowry site. This result calls into question the City's Comprehensive Plan promise to ensure replacement housing and its compliance with the affordable housing production requirements of Minn. Stat. § 473.859 Subd. 4. Because deeply affordable housing is disproportionately needed by metro area minority households and because Lowry Grove displaces disproportionately were minorities, the City's current rejection of the project it earlier supported raises obvious federal Fair Housing Act issues.