



S.F. No. 685 and H.F. No. 1193 Proposed Legislation: Special Law to Create and Retain Affordably Priced Housing in the City of Edina

EXECUTIVE SUMMARY

PURPOSE

The legislation is intended to release an existing short-term revenue stream of property taxes in order to help finance the creation or retention of affordably priced housing in the City of Edina.

The Metropolitan Council has identified the need for 1,220 new affordable units in Edina by 2030.

BACKGROUND

Families, seniors and individuals of limited incomes continue to face difficulties in finding safe and convenient housing in many suburban communities. While the post-Recession recovery in the housing market has delivered more than 1,800 new luxury housing units in Edina, the market has delivered only a meager number of new affordable units. Meanwhile, investors continue to acquire existing affordably priced housing complexes and reposition them in the market place, often resulting in displacement of people of limited means.

In 2014, the State Legislature approved a Special Law to allow Edina to use a portion of the incremental property taxes collected to support affordably priced housing. The application of that Special Law expires in December 2019.

As of January 2019, the City of Edina has applied this Special Law to support new affordably priced developments by Beacon Interfaith (66 West Apartments) and Aeon. Two additional mixed-income developments are currently under consideration to use this Special Law.

FINANCIAL STRATEGY

In 2012, the City of Edina established the Southdale 2 Tax Increment Financing (TIF) District to stimulate job creation and reinvestment in and around Southdale Mall. This TIF District has been very successful. A \$5 million TIF Loan to Simon Properties (the owners of the mall) leveraged \$40+ million of private investment in the shopping mall itself. More importantly, this public-private investment yielded nearly \$300 million of additional private investment in the properties surrounding the mall. The vast majority of this additional investment delivered high-end market rate commercial and residential properties and only a meager number of affordable units.

The City proposes to use the incremental property taxes (that have already been collected) to support the creation or retention of affordable units in the City. This public investment is anticipated to provide approximately \$15 million of local public financing. These local funds will be used to leverage other private and public funding sources. Ultimately, these incremental taxes could provide at least 400 units in up to eight sites scattered throughout the City of Edina. This local investment could be made without an additional levy increase to the taxpayers.

Additional detail is attached.

What are “increment taxes”?

When a TIF District is created, the “base” tax rate is temporarily frozen. The base property taxes continue to be distributed to the various taxing agencies – primarily cities, schools and county.

Incremental property taxes are generated by new investment that yields more tax value than the original development. These incremental taxes remain within the District and are typically used to reimburse the developer for extraordinary costs related to the higher than usual cost of redevelopment or the lost revenue attributed to the reduced rent that is collected from affordably priced units.

Who lives in “affordable housing”?

Affordable housing is needed for seniors, families with children and individuals. The salary of a new teacher in Edina Public Schools starts at \$39,000. The salary of a new 911 Dispatcher and most beginning administrative/clerk positions would also qualify for affordable housing.

What does “affordable” mean?

For the purpose of this legislation, affordable units are assumed to be leased to households earning no more than 60% of the Area Median Income (AMI). For the Twin Cities metro area, the AMI for a family of four is currently \$90,430.

Tenants in affordable units must have adequate credit to qualify for leases and a single person can earn no more than \$39,660 annually. A family with three members can earn no more than \$50,940 annually.

In 2018, the maximum rent that could be charged was limited to \$1,062 for a one-bedroom apartment and \$1,273 for a two-bedroom apartment. By comparison, the market rate for a typical one-bedroom is \$1,400 and \$1,900 for a two-bedroom.

The City strives to work with developers and property managers to include some units priced to be affordable to households earning 30% AMI and 50% AMI. The income and rents for those families are adjusted proportionally downward.

What is “redevelopment”?

Edina is a fully built out community with no easy sites for new real estate development. In order to attract new investment, older buildings need to be demolished and contaminants removed or remediated to ensure safe conditions for the future users. These are the conditions that make “redevelopment” of brown field sites more expensive than the cost of new development in green field locations.

Redevelopment sites are often attractive due to existing community assets like parks, schools, employment opportunities and access to transit and transportation routes.

Does TIF hurt schools?

This is a common misconception. Bodies with taxing authority like a school district levy a specific amount of property taxes each year. That levy amount is spread over the total property tax base regardless of the presence or absence of a TIF District. These local property taxes supplement the school district funding – which predominantly comes from state and federal sources.

A February 2016 letter from the Edina Public School District stated in part “...the school board recognizes a TIF district does not directly impact the amount of the school district’s local revenue...”

WHY PURSUE AFFORDABLE HOUSING IN EDINA?

Edina has long been a community of choice. The City is well-located in the Twin Cities metropolitan area and has convenient access to the downtown and suburban employment centers, higher education, recreational opportunities and the airport. Edina also hosts multiple employment opportunities and an outstanding school system. Edina is a safe community with outstanding parks and services. There are many options for goods and services to meet the day-to-day needs of residents and visitors.

People of diverse backgrounds and incomes are welcome in Edina. The community recognizes that diversity can create stronger bonds and greater understanding among neighbors. This is embodied in the School District's motto of "All for All" and the City's housing program called "Open Doors Edina".

Residents and members of the local business community have both identified concerns with the lack of affordable housing options for family members, seniors wishing to downsize and employees. To afford a typical home in Edina –with an average sales price of \$530,000, the household income would have to be more than \$118,000. Renters typically have to earn approximately \$60,000 to afford a typical apartment with \$1,500 rent. These conditions hinder many individuals and families from living in Edina.

Being home to strong employers from many different industries, more people work in Edina than live in Edina. Approximately 40,000 people commute into Edina for work. It is in the best long term interest of the community if individuals and families with a variety of incomes can live and work in Edina.

To that end, the City is taking proactive steps to ensure that reasonable actions are taken to preserve some of the existing affordably priced housing and to create new affordably priced housing. While the focus of this proposed legislation is on multi-family developments, the City is also exploring strategies to preserve the affordability of single family houses and create new affordable ownership opportunities.

PROGRESS TO DATE

Under current Minnesota law, Economic Development TIF Districts must use 80% of revenue for qualified economic development purposes within the boundaries of the TIF District and may pool up to 20% of incremental property taxes toward activities outside the district boundaries. Under current law, a local HRA may choose to increase this 20% pooling by an additional 10% as long as the pooling is for certain qualified housing projects.

In 2012, the City of Edina and Edina Housing and Redevelopment Authority created an 8-year Economic Development TIF District to encourage and attract investment in and around the Southdale Center shopping mall which had reached a period of stagnation and decline.

In 2014, the City of Edina was granted special legislation that allows the Southdale 2 TIF District to increase the pooled amount by an additional 25%. In total, this means up to 55% of incremental property taxes collected in the Southdale 2 Economic Development TIF District may be expended toward qualified affordable housing developments. This proposed 2019 legislation would remove the 55% ceiling completely for affordable housing purposes and would extend the sunset of the existing affordable housing legislation from 2019 to 2021 (same timing of decertification of the Southdale 2 TIF District).

ADDITIONAL BACKGROUND

In 2012, the City of Edina established the Southdale 2 Tax Increment Financing (TIF) District to stimulate job creation and reinvestment in and around Southdale Center Mall. The TIF strategy was selected to counteract several years of declining property values as the mall suffered from uncertainty in the retail marketplace. This public-private effort was highly successful in attracting new market-rate investment but was less successful in delivering new housing units that are affordable for seniors, working families and individuals with limited incomes. The table below summarizes recent projects within the boundaries of the Southdale 2 TIF District:

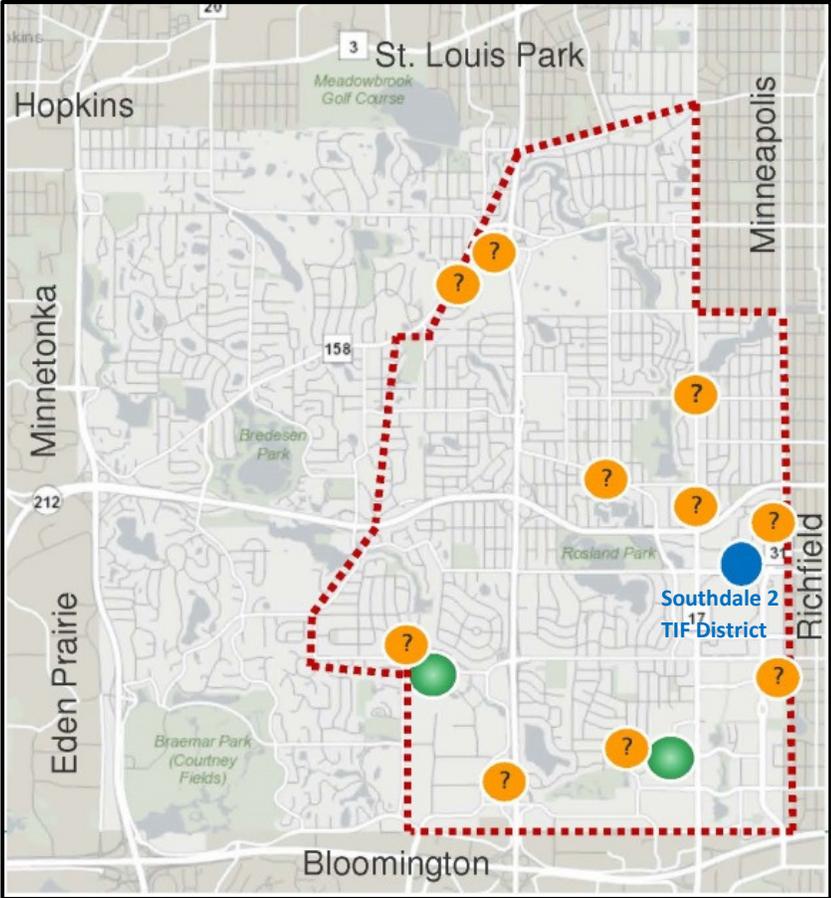
Project Name	Description	Commercial Space	Residential Units	
			Market	Affordable
Southdale Center Mall Renovations	Full renovation and improvement to America's original indoor climate-controlled shopping mall – a \$5 million TIF loan leveraged \$25+ million in private investment in the mall plus \$15+ million in tenant improvements and boosted investor confidence in the area	1.3 million SF	--	--
One Southdale Place Apartments	Luxury apartments with indoor parking and public streetscape improvements; completed in 2016; privately funded – no TIF	--	232	0
Homewood Suites	Mid-tier extended stay hotel on a site previously used for overflow parking; completed in 2018; privately funded – no TIF	146 rooms	--	--
Lifetime Fitness	Flagship fitness center on site of former JC Penney; completion expected in 2019; privately funded – no TIF	120,000 SF	--	--
Lifetime Work and Lifetime Soccer	New co-working and athletic training facility on site of former JC Penney; completion expected 2019; privately funded – no TIF	65,000 SF	--	--
Shake Shack	New fast casual restaurant on a site previously used for overflow parking; completed in 2018; privately funded – no TIF	5,000 SF	--	--
Restoration Hardware Gallery	New furniture gallery on a site previously used for overflow parking; completion expected 2019; privately funded – no TIF	58,000 SF	--	--
Galleria Edina	Expansion of existing shopping center to accommodate new luxury retailers; completed in 2018; privately funded – no TIF	40,000 SF	--	--
Bank of America	Flagship banking facility on site previously used by former credit union; completed in 2018; privately funded – no TIF	7,100 SF	--	--
Medical Office at 6545 France Ave	New medical office addition on site formerly used for patient drop off/pick up; completed in 2015; privately funded – no TIF	60,000 SF	--	--
Taco Bell	Complete reconstruction of fast casual restaurant on site of previous restaurant; completed in 2014; private funded – no TIF	1,900 SF	--	--
The Onyx Apartments	Luxury apartments with street level commercial space, indoor parking and public streetscape improvements; completed 2016; privately funded – no TIF	11,500 SF	240	0
Aria Edina Apartments	Luxury apartments with indoor parking and public streetscape improvements; completion expected 2019; privately funded – no TIF	--	179	6
Aurora on France Senior Apartments	Luxury senior (55+) facility featuring independent, assisted and memory care units with indoor parking, skyway access to Fairview Hospital and public streetscape improvements; completed in 2016; privately funded – no TIF	--	172	10
66 West Apartments	Expansion of former bank to create new affordable housing targeted to young adults who had previously experienced homelessness; completed 2017; financed with public and private funds including a \$550,000 TIF grant	--	0	39
Total		1.67 million SF	823	55

The Southdale 2 TIF District will expire in 2021. The City seeks authority to use the incremental property taxes collected until the expiration date to jump start affordably priced housing in Edina. When the TIF District expires in 2022, the greatly increased property tax base will be added to the tax rolls to benefit all taxing agencies.

IMPLEMENTATION STRATEGY

Upon authorization, the City is prepared to move forward by identifying potential sites and working with the private sector to advance the shared goal of affordably priced housing. A four-step implementation process has been prepared to guide these efforts.

Step 1		Identify amount of local TIF funding available from Southdale 2 District
Step 2	A	Pursue at least 3 and up to 8 projects during 2019-2021
	B	Distribute units in all four quadrants of Edina, using caution not to overload any particular elementary school or school district with new households
	C	Seek a combination of new construction and preservation of existing buildings
	D	Focus on multi-family housing for TIF-funded projects since TIF can be a cumbersome financing mechanism for single-family homes
	E	Seek a combination of rental and ownership opportunities
	F	Seek a combination of 100% affordable developments and mixed-income developments where 20% of the units are affordably-priced
	G	Seek a variety of unit sizes from studio to 3-bedrooms to provide realistic choices for seniors, working families and individuals
Step 3		Negotiate potential acquisition terms and redevelopment terms with owners and private sector developers
Step 4		If terms and outcomes are desirable, create a new Housing TIF District using Southdale 2 funds as a stimulus



Preliminary community input has been taken into consideration as the City prepared this implementation strategy. Please note that the City’s standard development review process – which encourages transparency and community engagement – will be applied to each site prior to the consideration of a new TIF Housing District.

This map shows approximate locations where affordable housing could be pursued. The potential sites are distributed among all four quadrants of the City and are all located with the boundaries of the Southeast Edina Redevelopment Project Area (shown dashed red lines). These sites could accommodate new construction or renovation of existing apartment buildings.

PREPARATION OF LEGISLATION

City staff engaged public finance advisors at Ehlers Associates to review Minnesota's TIF Statutes to consider modifications that could achieve community goals regarding diversity of housing choices. Proposed language was prepared in 2018 working collaboratively with House and Senate research staff.

The proposed legislation seeks two key modifications to maximize the availability of local revenue:

- 1) Extend the deadline to use these funds from 2019 to 2021. This termination date coincides with the expiration of the Southdale 2 TIF District.
- 2) Consider any affordably priced housing development within the boundaries of the Southeast Edina Redevelopment Project Area to be considered an "in-district" expense for TIF purposes. This would remove the limitation on pooling from one TIF District to another TIF District. This change is temporary in nature and only applicable to affordably priced housing.

PROPOSED LEGISLATION FOR 2019 SESSION

1.1 A bill for an act
1.2 relating to city of Edina; modifying the special TIF authority for Southeast Edina
1.3 Redevelopment Project Area; amending Laws 2014, chapter 308, article 6, section
1.4 8, subdivisions 1, as amended, 3.
1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. Laws 2014, chapter 308, article 6, section 8, subdivision 1, as amended by Laws
1.7 2017, First Special Session chapter 1, article 6, section 11, is amended to read:

1.8 Subdivision 1. **Authority to create districts.** (a) The governing body of the city of
1.9 Edina or its development authority may establish one or more tax increment financing
1.10 housing districts in the Southeast Edina Redevelopment Project Area, as the boundaries
1.11 exist on March 31, 2014.

1.12 (b) The authority to request certification of districts under this section expires on
1.13 December 31, ~~2019~~ 2021.

1.14 **EFFECTIVE DATE.** This section is effective without local approval under Minnesota
1.15 Statutes, section 645.0213, subdivision 1, paragraph (b).

1.16 Sec. 2. Laws 2014, chapter 308, article 6, section 8, subdivision 3, is amended to read:

1.17 Subd. 3. **Pooling authority.** The city may elect to treat expenditures of increment from
1.18 the Southdale 2 district for a housing project of a district established under this section as
1.19 expenditures qualifying under Minnesota Statutes, section 469.1763, subdivision 2, paragraph
1.20 ~~(d): (1) without regard to whether the housing meets the requirement of a qualified building~~
1.21 ~~under section 42 of the Internal Revenue Code; and (2) may increase by an additional 25~~
1.22 ~~percentage points the permitted amount of expenditures for activities located outside the~~
1.23 ~~geographic area of the district permitted under that section (b).~~

1.24 **EFFECTIVE DATE.** This section is effective upon local approval by the governing
1.25 body of the city of Edina and its compliance with the requirements of Minnesota Statutes,
section 645.021, subdivision 3.

Prepared by City of Edina, Updated February 22, 2019