Affordable Housing: How 'Smart Growth' Dashes Minnesota Dream Homes

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For the past several years, policymakers and interest groups in Minnesota have been pursuing two distinct goals related to housing: increasing the supply of affordable housing and limiting the expansion of the metropolitan area through a series of "smart growth" initiatives. Both have received a fair amount of press attention, but little has been said about how these two policies affect one another.

Of course, there is a need for affordable housing throughout Minnesota, not just in the Twin Cities metro area. Because most of the smart growth restrictions are aimed at the metro region, however, this paper will focus on affordable housing in the seven-county area surrounding the Twin Cities.

A crucial question facing policymakers is how to ensure an adequate supply of affordable housing. Some advocate increasing production of affordable units; others advocate increasing income supports; others argue for "buying down" the cost of

housing through various financing mechanisms. A combination of all of these approaches is likely necessary and the issue is what mix of local, regional and state policies will meet the need most efficiently and effectively.

Another critical issue in the smart growth debate is whether development should be restricted to transit corridors within a prescribed geographic boundary, subject to various requirements such as minimum densities.

The nexus of these debates is where growth restrictions drive up housing costs, thereby limiting supply and decreasing affordability. Is the loss of affordability worth the supposed benefits of growth restrictions?

Although increasing the supply of developable land and reducing various regulations would improve affordability, such measures may not reduce costs enough to significantly help those with the lowest incomes. Rather than spending millions of dollars to spur growth restrictions that drive up the cost of housing and necessitate spending millions more to make housing more "affordable," policy-makers should abandon many of the smart growth initiatives and use the money devoted to smart growth incentive programs to buy down the cost of housing for the most needy. In addition, policymakers should create markets to enable public and private entities to compete to provide services to empower low-income households to move into homeownership and build wealth.

Affordable Housing: Just How Big is the Problem?

Defining Terms

One of the most difficult problems in any discussion of the affordable housing "crisis" is defining whom it affects. In 2001, the Legislative Auditor reported that, "We do not dispute that affordable housing is a considerable problem for some Minnesotans, but we found little recent data that precisely identify the size of the problem and who it affects most, especially outside the Twin Cities metropolitan area."[1]

While the Legislative Auditor blamed part of the difficulty on the lack of availability of data from the 2000 Census, recent analysis of the census data shows that, by many measures, the housing situation actually improved for many Minnesotans in the 1990s.

The first task, therefore, is to define "affordable housing" and examine the scope of the problem.

Housing advocates and the federal government define housing as "affordable" if it costs less than 30 percent of a household's income. Because no one much cares if a person with a $1 million income spends $400,000 on a home, most observers limit the affordable housing definition to lower- and middle-income households.

The U.S. Department of Housing and Urban Development (HUD) defines "low-income households" as those with incomes at or below 80 percent of the median family income.

Households at or below 50 percent of the median family income are considered "very-low income" and those at or below 30 percent of the median family income are considered "extremely low income."[2]

Housing assistance programs often use 80 percent of median income as the threshold for qualifying for assistance with homeownership, and 50 percent to 30 percent of median income as the threshold for qualifying for rental assistance.[3]

The median family income in 2000 in the seven-county metro area was $65,665.[4] Using the HUD definition, "low-income" would be defined as households earning $52,532 (80 percent of $65,665); "very-low income" would be defined as households earning $32,832 (50 percent of $65,665); and "extremely low income" would be defined as households earning $19,699 (30 percent of $65,665).[5]

Recent Trends in Minnesota Housing

In terms of homeownership and affordability, Minnesota generally does relatively well compared with the rest of the country. In 2000, 74.6 percent Minnesotans owned a home (up from 71.8 percent in 1990[6]), substantially higher than 66.2 percent nationwide.[7] The median value of owner-occupied housing in Minnesota was $122,400 (up from $74,000 in 1990[8]), slightly higher than the U.S. average of $119,600.[9,10] Median household income in 2000 was also higher in Minnesota compared to the nationwide average—$47,111 and $41,994, respectively.[11] Private non-farm employment also showed significant growth relative to the rest of the nation. From 1990-2000, private employment increased 27.6 percent in Minnesota versus 18.4 percent nationwide.[12]

While the economy slid into and out of recession since the 2000 Census, recent data suggests that Minnesota has continued to do well relative to the rest of the nation in terms of income and homeownership. In 2002, Minnesota ranked first in the nation for home-ownership rates (77.3 percent) and in 2001 (most recent data available), it ranked fourteenth for average annual salary.[13]

The Twin Cities, which is the fifteenth largest metropolitan area in the nation, is similarly advantaged. A comparison with nine similarly sized metropolitan areas showed Minneapolis-St. Paul had the highest percentage (72.4 percent) of owner-occupied housing units in 2000. When renters were included, Minneapolis-St. Paul had the highest percentage (97.2 percent) of occupied housing units among its peer group.[14]

The flip side to this good news was that the metro area had the lowest vacancy rate (2.8 percent) in its peer group; well below the 5 percent that most housing analysts agree is a sign of a healthy housing market. A tight housing market drives up prices, which further limits affordable housing options.

Of course, the recent recession and its lagging effects have caused more

families to live together and more young adults to move back in with their parents. In addition, reductions in the state tax rate on multifamily rental properties have spurred new construction. These factors have combined to significantly increase the vacancy rate for rental housing over the past three years. Recent rental vacancy rate in the Twin Cities metro area was 7 percent, up from 6.7 percent the previous quarter. [15] This number is comfortably above the 5-percent vacancy threshold for a healthy housing market.

As with homeownership, affordability also significantly improved in Minnesota in the 1990s. Generally speaking, if income rises faster than housing costs, affordability improves. After adjusting for inflation, median income in the Twin Cities metro region rose faster than housing costs during the 1990s, improving affordability. Median income of homeowners increased 14.1 percent, while housing costs for homeowners with mortgages rose 7.3 percent (housing costs for those without mortgages rose 9.2 percent, although total costs were lower). Median income of renters rose 9.8 percent, while median gross rents rose only 3.4 percent.[16]

The record low interest rates in recent years are one of the primary reasons affordability improved. Because low interest rates kept overall housing costs down relative to rent in a tight rental market, opportunities for homeownership opened up for the first time for many people.

In 1989, 23 percent of households in Minnesota spent at least 30 percent of their income on housing.[17] In 1999, 16.6 percent of households statewide, and 17.7 percent of households in the seven-county metro region, spent at least 30 percent of their income on owner-occupied housing.[18] While 16.6 percent of households is still a sizable number (314,591 households), a 6.4-percent decline in the number of households spending more than 30 percent of their income on owner-occupied housing shows we are making good progress on affordability in homeownership. As the tables below indicate, however, those who continue to pay at least 30 percent or more of their income in monthly mortgage costs are

Percentage of households that paid 30 percent or more of household income in monthly mortgage costs, 1999

Household Income	Minnesota	7-County Metro
Less than $10,000	79.0 percent	42.5 percent
$10,000 - $19,999	42.4 percent	55.6 percent
$20,000 - $34,999	34.0 percent	47.0 percent
$35,000 - $49,999	21.3 percent	30.8 percent
$50,000 - $74,999	9.6 percent	12.8 percent
$75,000 - $99,999	4.0 percent	4.8 percent
100,000 - $149,999	2.2 percent	2.5 percent
$150,000 or more	0.8 percent	1.0 percent

likely to be very-low income or minority households.

Although minorities in the region made significant gains in affordability and homeownership in the 1990s, high percentages of minorities continued to lack affordable housing relative to their proportion of the region's population. The number of non-white householder-owners grew by 137 percent.[19]

The rental market also made gains in affordability in the 1990s, but very-low income and minority households continue to struggle. In 1989, 41 percent of Minnesota renters spent 30 percent or more of their household income on rent. That number declined to 36.9 percent of rental households statewide in 1999.[21]

In 1989, 41.4 percent of rental households in the metro area spent at least 30 percent of their income on housing. In 1999, that number declined to 37.8 percent.[22]

Although a high percentage of minorities still pay 30 percent or more of their income for housing, the number of minorities in the region in "concentrated poverty" declined significantly over the past decade. A recent Brookings Institution report shows the Twin Cities made significant gains in reducing the number of people living in poverty and the percentage of the poor living in high-poverty neighborhoods ("concentrated poverty"). This is important, according to the study, because "concentrations of poor people lead to a concentration of the social ills that cause or are the causes of poverty."[23,24]

In sum, the data from the last decade show that although housing costs have risen substantially, income has risen faster, generally improving affordability and rates of homeownership. Those with "very-low" and "extremely low" incomes, as well as minority households, did not fare as well as the general population. Substantial numbers from these groups still spend more than 30 percent of their income on housing.

The "Housing Gap"

The "housing gap" is defined as the "difference between the net number of dwelling units added to the housing supply in a given time period and the

Percentage of households with a mortgage in the seven-county metro area that paid 30 percent or more of their household income in monthly mortgage costs by race, 1999

Race	Paid 30 percent or more in Mortgage Costs	Percent of Owner Households
White	19.5 percent	92 percent
Black	30.9 percent	2.5 percent
American Indian, Eskimo, Aleut	29.6 percent	0.3 percent
Asian	26.3 percent	2.4 percent
Hawaiian, Pacific Islander	12.1 percent	0.02 percent
One other race	28.5 percent	0.6 percent
Two or more races	27.8 percent	0.8 percent
Hispanic[20]	23.8 percent	1.3 percent

number needed to accommodate population change and improve quality."[25] Between 1990 and 2000, the number of households in Minnesota increased by 247,274 and the number of housing units increased by 217,501 (gap = 29,773). In the seven-county metro area, the number of households increased by 145,950, while the number of housing units increased by only 125,016.[26] (Gap = 20,934). That means 70.3 percent of the "housing gap" in Minnesota can be attributed to a shortage of supply in the Twin Cities metro region.[27]

This doesn't account for the number of housing units lost to abandonment or withdrawal from the residential stock. Neither does it account for the need to replace the worst of existing units to improve housing quality.[28] A 1996 study showed that approximately 10,000 housing units in the metro were vulnerable to demolition because they had not been properly maintained.[29] Adding these 10,000 units to the metro-area housing gap of 20,934, yields an admittedly crude estimate of the housing gap in the metro region of 30,935 units for 2000.

Of course, these data do nothing to illuminate at what price this housing gap exists. What percentage of the increase in new households was "low," "very-low," or "extremely low" income? What percentage of the new units was at or below the median home price? Clearly more research needs to be done on these questions.

This notion of a "housing gap" or lack of supply is what drives the claim of many housing advocates that the solution is the production of additional housing units. Of course, since the costs of new construction are so high, any new units produced would have to be substantially subsidized to make them affordable.

It is precisely this double-overlay of costs—the high cost of construction which, in turn, necessitates subsidies—that prompts some to argue that income supports would be a more efficient and effective way to assist families in need of affordable housing.[30]

Causes of the Inadequate Supply of Affordable Housing

Most analysts cite four reasons for the shortage of affordable housing: high

Percentage of households in the seven-county metro area that paid 30 percent or more of their household income in gross rent by race, 1999

Race	Paid 30 percent or more in Gross Rent	Percent of Renters
White	35.2 percent	73.1 percent
Black	45.4 percent	11.4 percent
American Indian, Eskimo, Aleut	41.1 percent	1.2 percent
Asian	32.4 percent	4.6 percent
Hawaiian, Pacific Islander	25.4 percent	0.1 percent
One other race	34.8 percent	2.4 percent
Two or more races	40.0 percent	2.7 percent
Hispanic	35.4 percent	4.5 percent

land costs; high construction costs; zoning and code requirements; and loss of tax incentives. Many of these "causes" are actually rooted in an underlying smart growth philosophy, which purposes to restrict the housing market.

Ring around the metro

Both housing advocates and developers cite the high cost of land and construction as the most significant barriers to producing affordable housing. Several components drive these costs.

First, anecdotal evidence suggests that the cost of the land has risen precipitously, particularly in the metro area.[31] Generally, the price of land goes up as the supply declines and as the "opportunity costs" for its uses rises.

The most often-cited reason for a limited supply of land in the Twin Cities region is the flexible growth boundary known as the "MUSA line." The Metropolitan Urban Services Area (MUSA) is the region to which the Metropolitan Council provides infrastructure to service urban development. In practical terms this means the extension of the "big pipe" that provides sewer and water services throughout the metro area.[32]

The concept of the MUSA line was adopted in 1976 as part of the Metropolitan Development Framework, the Metropolitan Council's first growth management policy.[33] Each community in the seven-county metro area under the Met Council jurisdiction was charged with developing a realistic assessment of its population growth and land needs for a five-year period. The community would then recommend an extension of the MUSA line to provide enough water and sewer services to make the requisite land available for development.[34]

These original Local Comprehensive Plans (LCPs), which were required in 1976 by the Metropolitan Land Planning Act (MLPA), were gradually drawn up and negotiated and the final MUSA line was finally set in 1984.[35]

MUSA expansion was considered in 1988. The demand for suburban land caused cities to request an additional 20,000 acres through 1992. The Met Council approved only 12,000 acres "for which applicants were able to demonstrate their need."[36,37]

From 1987 to 1996, a net 25,282 acres were added through expansion of MUSA.[38] Although it was not possible to find out how many additional acres had been requested during this period, that seems to be a relatively small amount for a nine-year period.

In 1995 the Met Council conducted its own review of the effect of MUSA expansion on the cost of land. Although this self-study was inconclusive, subsequent studies by the Met Council, the Builders Association of the Twin Cities, and others have "found that land inside the MUSA is generally more expensive than land outside the area. However, the studies differ with respect to the size and cause of the difference."[39]

The Met Council maintains that the MUSA line is expanded whenever the supply of developable land drops below a ten-year supply.[40] This seemingly compelling argument was undercut in 2000 when a Builders

Association showed that the Met Council's estimates of developable land within the MUSA line are erroneous.

For example, the Met Council counted a large tract owned by General Mills in Golden Valley, which is obviously unavailable. The Builders Association estimated that only 43 percent of the 97,000 acres of supposedly developable land was actually available for development (which was confirmed by local planning documents).[41]

The Met Council incorrectly assumed that there was an additional 55,000 developable acres of land in the Metro Area. This huge amount of land is twice as much as the entire amount added to the MUSA between 1987 and 1996. Can there be any doubt that this flawed methodology, as well as the intentional restrictions on developable land, has increased the cost of land in the metro area?[42]

The Twin Cities' experience is not unique. Other metropolitan regions have employed an Urban Growth Boundary (UGB), which is more restrictive than our MUSA line, in an attempt to restrict development. A 1994 report by the regional government of Portland, Oregon, which is perhaps the most famous example of an UGB in the country, "found a public welfare trade-off for increased density, reduced vehicle-miles traveled and higher non-auto travel. *The downside of pursuing such objectives appears to be higher housing prices and reduced housing output*" (emphasis added).[43]

The Met Council has since improved its methodology and is attempting to maintain a twenty-year supply of developable land. This longer time horizon is intended to give cities more flexibility regarding where development occurs and could also help reduce cost pressures caused by limiting the supply. According to the Framework 2030, the metropolitan area would need to add 16,500 residential acres to the MUSA before 2010 to accommodate the growth forecast for 2030.

High cost of construction

License and Permit Fees

The cost of construction also influences the supply of affordable housing. These costs include permit and plan review fees, park dedication fees, and sewer and water access charges.[44]

A 1999 study showed Twin Cities sewer access charges ranged from $20 to $1,900, water access charges from zero to $2,150, building permits from $508 to $1,000, and park dedication fees from zero to 10 percent of the property's land value.[45]

While cast as user fees, many of these fees are often hidden revenue raisers often unrelated to the actual services provided by the cities. The Legislative Auditor concurs: "some municipalities use fees to generate revenues beyond what is necessary to administer codes, enforce ordinances, and provide services."[46]

Zoning and Building Codes

Unnecessarily complex and comprehensive zoning, building and fire codes also increase housing costs. While no one doubts the importance of safety

codes, "gold standard" codes can unnecessarily increase the cost of housing. One example often cited by builders is the state code's energy provisions, which, by the original legislative mandate, must "be equal to or exceed the most stringent requirements adopted by any other state."[47] Although this provision was repealed by the Legislature in 1999, new indoor air quality mandates were simultaneously adopted. The new provisions took effect in April 2000, and the Minnesota Department of Commerce estimates that they add an additional $3,000 to $5,000 to the cost of a new home.[48]

Zoning and subdivision ordinances are used by cities to guide development according to their local comprehensive plans (LCPs).[49] Developers argue that local restrictions on density or lot sizes can drive up the cost of development, as can subdivision ordinances that mandate certain amenities, such as triple garages, minimum square footage, and exterior materials.

Stringent code requirements for rehabilitating an existing structure are another significant factor in the cost of affordable housing. Because no separate code for rehabilitation exists, builders must comply with the code for new construction when undertaking major remodeling or renovations. Both housing advocates and builders cite this as one of the big barriers to bringing more affordable properties into the housing stock. The cost of bringing an older property up to the code for new construction often puts it out of the range of affordable housing.

NIMBY politics

Many advocates argue that the three-car garage and similar zoning restrictions are intended to ensure properties are *not* affordable so lower-income families will not be able to purchase homes in their communities. Similarly, they believe that zoning and rehab codes in the city are often designed to ensure that low-income families can no longer afford to live there. Instead, the code requirements increase the value of the property (and thus the tax revenue to the city) and attract higher-income residents back to the urban core.[50]

This Not-In-My-Back-Yard—NIMBY—opposition to affordable housing has proven to be a significant barrier to the production of new units, particularly in the suburbs. Many developers are unwilling to invest the time and money necessary to lobby local governments for approval of affordable housing projects. The uncertainty surrounding the approval and the possibility of encountering significant political opposition that could negatively affect other current or future projects add substantial real and potential costs to affordable housing projects.

The Metropolitan Interfaith Council on Affordable Housing (MICAH) is attempting to counter the NIMBY syndrome with a new campaign to demonstrate how affordable housing benefits communities. The "Yes! In My Backyard" campaign hopes to organize local citizens in support of affordable development proposals to convince local officials, neighbors and developers that

affordable housing is a positive asset. Since the campaign is just getting under way in a few areas, it is difficult to determine what, if any, impact it will have on the actual production of affordable housing.

Tax Policies that Affect the Production of Affordable Housing

The 1986 Tax Reform Act

Changes in tax incentives have also contributed to the shortage of affordable housing. The watershed event was the 1986 repeal of federal tax incentives for construction of affordable multifamily housing.

In the early 1980s, the Reagan administration shifted the role of the federal government in housing policy from funding the production of public housing to providing more market-based incentives for the private sector to meet the need.

A new tax policy created significant incentives for the development of multifamily housing by allowing the rapid depreciation of income-producing real estate. Owners and investors were allowed to depreciate their properties over fifteen years, which meant they were able to write off the value more rapidly than its actual depreciation. In addition, the federal government created unrestricted tax-exempt bonds to help finance the projects.

The tax incentives worked very well and there was a boom in the construction of rental housing. The incentives proved to be too good, however. The rapid depreciation created artificial value for investors and overheated the market. Rather than investing in rental properties in hopes of making a normal profit, investors began to buy rental properties simply to acquire the tax loss.

The 1986 repeal was designed to curb such abuses but it, too, had significant unforeseen consequences. The 1986 Tax Reform Act "(1) eliminated accelerated depreciation, (2) ended the deductibility of construction-period interest and taxes in the year they were incurred, and (3) restricted the deductibility of passive losses."[51] While these changes were likely necessary to correct the abuses, they came at a time when the market was oversaturated with rental housing.

This oversupply meant that vacancies were increasing and rents were decreasing. In addition, the tax changes meant that the value of the properties declined precipitously and owners now owed more on the mortgages than the properties were worth. Many owners defaulted on their mortgages.

With the incentives gone and investors and lenders having been badly stung, the production of affordable housing dropped off significantly around 1986 both nationally and in Minnesota.[52]

Minnesota Property Tax Reform of 2001

Recent changes in the state tax code are expected to spur construction of multifamily housing. Historically, Minnesota has taxed rental housing at

a much higher rate than single-family units. In 1991, the average effective tax rate on rental properties (taxes paid divided by assessed market value) was more than two and one-half times the effective tax rate on owner-occupied homes.[53] By 2000, the effective tax rate on rental housing was down to a little more than two times that of owner-occupied housing, but the disparity was still very high.[54]

For years the Minnesota MulitFamily Housing Association and other groups representing owners, developers, and managers of multifamily housing had lobbied for greater parity on the taxation of these different properties. Although some argued that lower taxes on homesteads encouraged home ownership, others argued that the disparity meant that renters and businesses were effectively subsidizing home ownership for those who could afford the initial down payment and closing costs.

There is probably truth on both sides. While lower property taxes on homesteads certainly lowered the overall cost of home-ownership, Minnesota's property taxes on single-family homes were not low relative to the rest of the nation. In fact, in 1998, Minnesota's homestead tax rate ranked between eighteenth and twenty-sixth nationally, depending on the value of the home. Minnesota ranked third for highest effective tax rates on apartments that year.

The up-front cost of the down payment and closing is the single biggest barrier to home ownership. Some have argued that rather than encouraging home-ownership among the poor, the lower property tax rate on owner-occupied housing simply allowed the middle class to buy bigger homes. Low-income families who could not afford the initial costs purchase were locked into an extremely tight rental market that made it even more difficult to save for a home.

In 2001 the Legislature significantly lowered property taxes on both classes of property. The new rates were phased in and, while the rate on rental properties is still 25 percent higher than that on owner-occupied homes, the disparity has been substantially narrowed.[55]

Although the changed tax law is too new for empirical proof, developers and advocates agree that new rental property is being built because of the rate change. It remains to be seen how large the effect will be and whether the new developments will be affordable.

Of course, many analysts argue that *any* increase in rental property will lead to an increase in the supply of affordable housing. This "filter theory" asserts that as more luxury apartments are built and filled with people from more moderate housing, more moderate housing will become available. Those with lower incomes will move up to the vacant moderate housing, making available more low-income units.[56]

Advocates for affordable housing generally believe significant new federal and state investment in production is needed. They argue that because the state and federal government "subsidize" market-rate housing through the mortgage interest deduction, not to

mention the provision of public roads, sewer and water, and schools, a similarly substantial subsidy for affordable housing is what justice requires.

Developers argue that slowing the growth of land prices and reducing the costs of construction would significantly increase housing affordability. They advocate such changes as expanding the MUSA line to include more developable land—which would reduce the cost of land—and reforming the state and local building codes.

Smart Growth: What it is and How it Affects Affordable Housing

All of these debates over subdivision ordinances, density and expansion of the MUSA line have one thing in common—they are critical components of a national movement for limiting development known as smart growth. Smart growth advocates argue that unrestricted growth results in low-density residential and commercial development, which they describe as "urban sprawl." Sprawl is bad, in their view, because it increases traffic congestion (and thus, pollution), destroys "green space," and spawns social isolation.

Smart growth advocates argue that the antidote for sprawl is high-density, compact developments, usually along transit corridors. Such "transit-oriented developments" (TODs) will increase reliance on public transportation, decrease traffic congestion (and pollution), preserve green space, and provide a sense of "community" for those who live and work there.

The term smart growth is a marketing tool developed by advocates of growth restrictions to sell their development philosophy to the public. Rather than accurately describing the nature of the policies advocated (restricting or regulating growth and development) or the impact of those policies (higher densities, more traffic congestion, higher cost of homes), the spin engendered by the term is that growth is being allowed, but at a thoughtful, deliberate pace that "they" decide is best for everyone concerned.

A more accurate term might be "restricted growth" or "regulated development," but they smack of government dictates and would never garner support among the public. The terms *smart growth* and *restricted growth* will be used interchangeably throughout the rest of the paper.

National and local efforts are being made to get the affordable housing advocates to join forces with the smart growth advocates. Because much of what the smart growth movement advocates is actually detrimental to the cause of increasing affordable housing, it is fascinating that so many housing advocates have been won over. The argument generally goes that high-density housing is cheaper to build, so it is more likely to be affordable than single-family homes built in the absence of smart growth initiatives. Further, because high-density developments require less public service—transportation, fire and police protection—and supposedly lead to less congestion, the long-run cost savings can be used for more affordable housing units.

While high-density housing may be cheaper to build, it is not necessarily more affordable than housing built in the absence of smart growth initiatives, because the smart growth restrictions actually drive up the cost of land, increase construction costs, and encourage the development of higher-end or "luxury" units.

It has become fashionable to commission studies to demonstrate the efficiencies in local services from high-density developments, but the assumptions are unconvincing. Although the case could be made that high-density developments require fewer public services because more people are in one area, the case that high-density leads to the "concentration of social ills,"[57] which would require greater public services, can be made with equal force. A fire in a high-density development would likely affect a greater number of families and have a higher cost than a fire in a single-family development.

Minnesota, though not at the vanguard of the smart growth movement, is certainly part of the national trend. In December 2002, the Met Council, under chairman Ted Mondale, adopted a comprehensive development guide known as *Blueprint 2030*, which committed the region and the Met Council's significant resources to a smart growth agenda for the next twenty-seven years.

Since the plan's adoption and Gov. Tim Pawlenty's election, the chairmanship and membership of the Met Council has changed. This Met Council, now chaired by Peter Bell, recently drafted its own regional development guide, known as the Regional Development *Framework 2030*.

Although some smart growth buzzwords have been eliminated and more conservative rhetoric about "market forces," "choice," and "cost-effectiveness" have been added,[58] the substance of the new *Framework* is remarkably similar to Mondale's *Blueprint*.

Of course, the current Met Council would argue strenuously that they are charting a course for the region that is significantly different than the Mondale-era vision. While I agree that the Framework is less prescriptive and generally more open to allowing market forces to operate in regional development, the difference is a matter of degree, rather than a genuine change in philosophy.

Some possible reasons for this shallow shift are: many of the underlying legislative mandates (e.g., the Livable Communities Programs) remain unchanged; altering the course of policies that affect multiple jurisdictions takes time; and although the make up of the council has changed, the permanent staff, which wrote both the Blueprint and the Framework, is largely unchanged. [59]

A comparison of how the Mondale *Blueprint* and the Bell *Framework* incorporate three key smart growth strategies will illustrate the similarities in the documents. We will examine how each proposes: clustering development around existing transportation corridors to ease congestion; lifecycle housing; and reinvestment and infill.

Clustering Development Along Transit Corridors

The Mondale *Blueprint* described its vision for these high-density developments in this way:

> "For residents of a community, clustering housing, businesses, retail, and services along a transportation corridor means that many ordinary household needs can be taken care of quickly and easily, with one short auto trip, one parking spot. For the region, this translates to better access to jobs, fewer—and shorter—auto trips (and therefore less air pollution), more housing choices, and more options for reaching destinations."[60]

Although the policy goal of the Bell *Framework* is to "work with local communities to accommodate growth in a flexible, connected and efficient manner,"[61] the discussion of this strategy closely mirror's Mondale's philosophy:

> "If the land use patterns cluster housing, businesses, retail, and services in walkable, transit-oriented centers along transportation corridors, the benefits increase: Improved access to jobs, open space, cultural amenities and other services and opportunities. Fewer—and shorter—auto trips, more housing options and more choices for reaching local and regional destinations. A significant reduction in the number of vehicle trips and vehicle miles traveled, slower growth in traffic congestion, improved air quality, and a healthier environment compared with a more spread-out, single-use pattern of development. …shorter daily commutes provide more time for personal or family activities."[62]

The Bell *Framework* puts a conservative spin on this utopian vision by asserting that such clustering will save individual households and taxpayers money because transit connections save money for families and taxpayers won't have to build new roads or add more lanes.[63] Of course, this argument is predicated on two unlikely assumptions: families will significantly increase their use of transit; and additional road capacity will not be needed if the density along a corridor is increased.

The new council's acceptance of the smart growth agenda demonstrates the irresistible nature of the underlying philosophy—wouldn't we all like to live in a community with a strong sense of identity where we could walk to work and entertainment and run all of our errands from one parking spot? Unfortunately, it's unlikely that this ideal can become reality.

For three years I lived in a neighborhood that comes close to this vision: D.C.'s Capitol Hill. I walked to work past many shops and restaurants. I regularly walked to public transportation. Unfortunately, housing was very expensive and I couldn't afford the neighborhood shops and restaurants very often. To do everyday grocery or toiletry shopping, I had to drive to an even less-safe neighborhood or thirty minutes out to the suburbs. For those in the neighborhood who had lower incomes than I did, it was even more difficult. Their housing was even less safe and they didn't own a car, so they would either have to take a taxi or combination of bus and subway or rely on friends. If you've ever tried to take home a week's worth of

groceries for a family on a bus in an unsafe neighborhood, you know how reality intrudes on utopia.

Let's look at the assumptions underlying the call to cluster development along transportation corridors. First, "cluster" is smart-growth code for high density, often mixed-use, development designed to preserve farmland and open space. Because "high density" has negative connotations for much of the public, restrictive growth advocates are trying to soften the image.

And, for good reason—high density increases the cost of development. While increasing density on a given lot reduces costs for infrastructure, it also increases the value of the land, so some of the cost savings are offset by the increase in land price.[64] While higher densities may reduce the cost of a particular development, a general increase in overall density in a given city or region tends to increase housing prices, reducing affordability in that area.[65] At some point, the effort to reduce costs through increasing density will actually lead to higher costs for housing generally. The only way to mitigate this is if additional land becomes available for development in the area as the higher density housing is produced.

Recent growth trends in the metropolitan area seem to bear this out. As land and housing costs inside the MUSA have increased, families are increasingly opting to build on less expensive, non-serviced land outside the MUSA. Such "leap-frog" development is precisely the type of "sprawl" the growth restrictions were intended to prevent. Portland, Oregon, has similarly experienced significant growth outside its Urban Growth Boundary, as families there have also sought more affordable housing options.

An explicit assumption of the "clustering" strategy is that it will reduce traffic congestion. As noted above in the Mondale *Blueprint*, the theory is that clustering enables you to run all your errands "from one parking spot." Common sense and experience shows this is simply not true. Although the drive time may be less, it is doubtful you can get your groceries, dry-cleaning, go to the post office, and rent a movie all from one parking spot.

The Bell Framework softens this rhetoric while still supporting the philosophy that traffic can be eased by "combin[ing] transit, housing, offices, retail, services, open space and connected streets that support walking and bicycle use."[66]

Realization of this utopian vision is predicated on the assumption that clustering development along transit corridors (Transit-Oriented Development or TODs) will reduce auto usage. Contrary to predictions by restricted growth advocates, TODs have not decreased reliance on cars. Portland's twenty-year-old Urban Growth Boundary (UGB) has not resulted in lighter traffic; in fact, the level of traffic congestion is approaching that of New York City, even though Portland's population is fifteen times smaller. Traffic volumes are expected to rise 50 percent by 2015, despite the fact that five additional light rail lines are scheduled to

open. Since voters rejected a bond issue to build the next light rail line in 1998, it is uncertain the additional lines will be built.[67]

Additionally, contrary to the restricted growth rhetoric, the Environmental Protection Agency (EPA) has found that shorter auto trips at slower speeds can actually increase air pollution.[68]

In addition to high-density developments adding to traffic congestion, other studies of TODs have shown that "mixed-use" developments of housing and retail space, while providing some conveniences, can also increase congestion. As people from other neighborhoods come to take advantage of the shopping and dining options, parking and traffic problems in the area of development worsen. A recent study of one of the "flagship" TODs in Portland revealed that "transit use is minimal, there is a severe shortage of parking, and local neighborhood streets are being inundated with out-of-district MAX (transit) riders and Commons (development) residents parking on their streets."[69]

It is a classic Catch-22. If not enough people come, the retail/entertainment segment will fail. If they come, traffic/congestion will worsen (and slower speeds will increase air pollution). The restrictive growth solution to this conundrum is to create the critical mass necessary to support the retail and transit options. They do this by developing high-density housing units in the area. Of course, only well-off people can afford the retail and entertainment options, so the high-density housing has to be luxurious enough to attract owners/renters who can afford the whole package.

Such plans are under way in an exurb north of Anoka. City officials plan to move an entire low-density neighborhood so they can build a higher density development in its place. The rationale given for this dramatic move is that they need to increase the density in the area to support the new mixed-use retail and restaurants.

As limited, valuable land inside the growth boundaries is used up to build luxury, high-density housing, the land remaining is usually the most difficult to develop, increasing the cost of developing it, and making it less affordable.[70]

Developing "Life-Cycle" Housing

According to the Mondale Blueprint, "Life-cycle housing" is "a mix of housing [that] enables residents and their children to stay in the same community through the various stages of their lives, strengthening community involvement and associations."[71]

A key component of the development of lifecycle housing and transit-oriented developments (TODs) is the assumption that that mixed-use developments would enable workers to live near their jobs.

The Mondale *Blueprint* lauds this goal, noting that this would "shorten daily commutes, reduce business costs related to commuting congestion delays that reduce worker time on the job, increase productivity as commuting-related stress on employees is reduced …reduce the strain on the [transportation] system during peak

travel periods,…and expand employment opportunities for citizens of the region."[72]

The Bell *Framework* notes that, "if more communities have mixed uses . . . more people have the option of working in the same community in which they live."[73] This assumption is then translated into policy number three: "Encourage expanded choices in housing location and types, and improved access to jobs and opportunities."[74] The strategy to achieve this goal is to "support the production and preservation of lifecycle and affordable housing with links to jobs, services, and amenities accessible by auto, transit, biking or walking."[75]

Once again, the grand vision sounds appealing, but it is far from realistic. In addition to the fact that none of these predictions is supported by examples from research elsewhere in the country, there is no direct correlation between the development of housing and the location of the occupants' jobs.

While there are certainly many excellent examples of *employer-assisted* housing programs where employers take a leadership role in increasing the supply of housing in a region so their current and potential employees can live near their jobs,[76] there are no similar examples of government-initiated housing programs tied to occupants' employment.

Advocates often cite Minnesota examples of employer-supported housing in Rochester and Austin to show the power of locating affordable housing near an employment center. Indeed, Rochester and Austin are success stories, but they offer no support for a government solution. Rochester and Austin succeeded for two reasons: 1) They are in located in smaller communities where land is readily available and one large employer is able to significantly impact the housing needs of its employees because of the relatively small geographic area involved; and 2) they are market-driven. The employers needed to attract and retain good employees, but were unable to do so because there wasn't an adequate supply of housing.

Employers are willing to spend some of their own money to ensure housing is available because it improves their bottom line. It is less expensive than either busing employees from other towns in the region (as Mayo was doing in Rochester) or having to constantly recruit and retrain workers because they are not satisfied with the current housing options and go elsewhere.

In the seven-county region under the Met Council's jurisdiction, such an attempt to coordinate housing and employment needs is much less likely to be successful—even if it is employer-driven. In a smaller community, where a family lives relative to its various activities is less important because most work, church, school, sports, and extracurricular activities are all located in a fairly compact area.

In the metropolitan area, however, where many families have two adults working, it is nearly impossible to live close to both places of employment, church, school, etc. Trade-offs have to

be made and families generally make decisions on where to live largely based on what they can afford and where they like the schools. Proximity to work is often a secondary consideration. It's unrealistic to believe that developing affordable housing near employment concentrations or along transit corridors will result in many workers living near their jobs. A much more realistic approach is to provide the opportunity for a variety of housing options in as many communities as possible— the greater number of choices families have, the more opportunities they will have for employment, education, and recreation.

A more realistic program for meeting affordable housing needs in the metro area is, again, employer-driven. In April, 2003, Bremer Bank announced its employees could get assistance with down payments and closing costs as part of their benefits package. The loan would be forgiven over time, unless the employee left the bank.

This private-sector model is a superb example of how employees in the metro area can be assisted. Rather than being tied to living in a particular development, employees are free to use the loan wherever they choose. Clearly the private sector sees the wisdom on not limiting employees' housing choices to certain commute time ranges or transit corridors.

It must be noted that while the Bell *Framework* did not give any specific proposals regarding affordable housing, it is a positive sign that affordable housing was explicitly mentioned as one of the housing choices that would be encouraged throughout the region. The Mondale *Blueprint* simply mentioned lifecycle housing.

One-Third of New Growth with Reinvestment and Infill

Finally, let's look at two of the Framework's other restrictive growth tools. "Reinvestment" means redeveloping existing property, usually at higher density, and "infill" means developing vacant land inside the growth boundary, in this case, the MUSA line.

Both the Mondale *Blueprint* and the Bell *Framework* established a goal of 30 percent of new housing units and approximately 50 percent of new jobs in the region would be sited through reinvestment or infill.[77,78]

The rationale for this policy is that reinvestment and infill are important for continuing the "cycle of growth" cities go through and will keep aging communities "desirable locations for new households and new jobs."[79] Furthermore, *when undertaken along existing transportation corridors* (emphasis added), reinvestment and infill "also provide significant opportunities to create or enhance desirable "small town" places within the urban area by incorporating improved access to transit, increased housing choices, better connections among land uses and natural resource restoration…"[80]

Current rates of infill/reinvestment in the Twin Cities are 26 percent.[81] In 1999, despite years of smart growth planning, Portland's rate of infill was

25.4 percent. A study by Portland's regional government showed that the rate of residential redevelopment and infill was negatively related to the total housing built when the data were broken down by neighborhood."[82] The greater the amount of infill, the lower the overall number of housing units produced. As more land within the UGB was used up, the remaining land became scarcer, and more expensive. As the price of land goes up, higher home prices are necessary to justify the development of the relatively more expensive land. Furthermore, as home prices increased, homebuyers substituted away from land to increase home size. This "substitution effect" of home size for lot size occurred in all home-size categories.[83]

What are the implications of this data for the seven-county metro area? Given the current regulatory environment, as more vacant land inside the MUSA line is developed, less will be available and the price of land inside the growth boundary is likely to go even higher. As the price of land increases, the price of housing units will rise for two reasons: to justify the investment in the relatively more-expensive land; and because as the cost of land rises, the overall cost of the unit rises.

Not only do restrictive growth advocates agree with this analysis, they embrace it as a desired outcome. As home prices in the inner-city increase due to reinvestment and refill, the goals of neighborhood revitalization and higher densities are being met.[84]

But what happens to the low-income families who already live in the city and are already struggling to find affordable housing? As neighborhood home values rise ("gentrification"), many are no longer able to afford to live in the same neighborhoods that used to be "affordable." They are pushed out to first-ring suburbs, forced to move in with extended family members, or are otherwise displaced from neighborhoods that often have been a source of stability and support for them.

Stories like this aren't unusual. The displacement issue is compounded by city leaders' desire to improve the tax base by increasing property values and attracting higher-income occupants. While there is nothing wrong with cities promoting a healthy tax base, accomplishing it through the double barrel of excessive rehabilitation requirements and growth restrictions means that low-income families are left without housing options.

Analysis and Recommendations

As we have seen, the restricted growth proposals outlined in Blueprint 2030 will not achieve their utopian objectives and will unnecessarily increase the cost of housing throughout the region. Even if these smart growth policies are abandoned, very low- and extremely low-income families will still need varying degrees of assistance with housing services.

The production of new housing units and the necessary subsidies are limited by the amount of public and private dollars available, which by any measure is not enough to meet the

need. Increasing the supply of developable land would certainly help reduce the price of land, but it is unclear how much. Reducing the cost of construction by eliminating "gold plated" codes and various zoning restrictions would provide substantial cost savings, but may not lower the cost enough to help those in the "very low" or "extremely low" income ranges.[85]

Possible Policy Changes

Although affordable housing seems to be a perennial problem, the Met Council and local governments can do several things that would significantly improve the market for affordable housing. Enacting any of these specific changes, however, will require a political consensus that: ensuring an adequate supply of affordable housing is necessary for regional economic vitality; a range of housing choices—not just "lifecycle" but also "affordable"—is essential for every community in the region; and using smart growth principles, such as TODs or requirements for reinvestment/infill will not actually accomplish the utopian vision that underlies them and the money used to restrict growth could be better spent to increase affordable housing options throughout the region.

Although achieving a consensus (or at least a simple majority) on these big-picture issues will be difficult, it is not impossible and it is certainly worth the effort. The lack of a political consensus in support of restrictive growth management practices has not slowed the push to enact such policies. Those of us who believe it is the wrong diagnosis and the wrong elixir should not hesitate to push back.

The cost of continuing down the restrictive growth path will be tremendous—higher land and housing prices across the board, which will make it more difficult for employers and employees to settle here. Increased development along transit corridors has been shown to actually increase traffic congestion and pollution, thus reducing our quality of life. In addition, the quest for providing an adequate supply of affordable housing will be hampered and will likely lead to a new layer of subsidies and government regulations that mandate certain percentages of new developments be "affordable" (known as "inclusionary" housing policies). Such additional layers of regulation and subsidies will further distort the housing market, creating more externalities.

But such a scenario doesn't have to be lived out. Instead, we can choose to abandon the smart growth fad and follow development strategies that will increase the supply of affordable housing and improve our quality of life.

The Met Council can do three important things in this regard:

- It can increase the developable supply of land by expanding the MUSA line and accurately projecting and cataloging the land needs of the region.
- It can abandon the smart growth principles adopted in *Framework 2030*.

Instead of providing financial incentives for restrictions (such as growth only at certain densities along certain transit corridors), the Met Council could provide financial incentives for localities to *remove* regulations or fees. In 2003, the Met Council granted $9.7 million through its Livable Communities Programs to local communities for smart-growth-based development projects.[86] The Met Council could instead provide development grants for cities that waive various permit fees for affordable housing developments or provide zoning or rehabilitation code waivers to encourage development of affordable housing.

If the Met Council removes the current market distortions that cause local governments to make planning decisions based on the *Framework 2030*, local governments will be freed up to make decisions based on the needs of their communities. Instead of trying to leverage Met Council grant money for TODs that will require significant local investment and will likely not live up to the press releases on a number of fronts, local governments could use the money to buy down the costs associated with new developments.

Local governments also could:

- Change zoning laws or grant waivers from subdivision ordinances that mandate various amenities that make housing less affordable.
- Adopt separate building and rehabilitation codes, which follow national standards for safety, but which could also significantly reduce the cost of new units or rehabilitation of existing structures.
- Waive permit, code, hookup, or park fees to encourage the development of affordable housing.

Marketization

In his book, *The Twenty-First Century City*, Stephen Goldsmith, the former mayor of Indianapolis, argues that the key to prosperity and the efficient delivery of public services is competition. He draws a distinction between "competition" and "privatization" and believes that it is the former, rather than the latter, that is the essential ingredient in providing quality government services in a timely and least costly manner.

Goldsmith found, through trial and error, that private companies were not necessarily the best providers of some government services. He also found, however, that public entities were only spurred to be the most efficient service provider when they had to compete for the right to do so.

"Competition drives private firms—and, as we soon discovered, public agencies—to constantly seek ways to reduce costs and improve service," Goldsmith noted. "The pressure exerted by customers and the threat of losing out to competitors are what spur innovation and overcome the natural bureaucratic resistance to change in public or private institutions."[87]

Goldsmith adopted a model of creating a market for services where none had previously existed. This "marketization" freed public employees from the system that "punishes initiative,

ignores efficiency, and rewards big spenders."[88] It also allowed private firms to compete for the opportunity to provide some public services, such as sending utility bills or fixing potholes. Goldsmith found that in some cases (utility bills), private vendors could provide the service less expensively and with greater innovation and customer service. He also found, that when layers of politically appointed and often unnecessary supervisors were let go and union workers were empowered to design and execute their bid, public agencies could also be the most efficient service provider (fixing potholes). In both cases, the city realized significant cost savings, services were provided more effectively, and customers (citizens) received a higher level of satisfaction.[89]

Admittedly, providing affordable housing is a great deal more complicated than fixing potholes or sending utility bills (he also outsourced wastewater treatment, which the Met Council could consider), but the model of creating a market where one did not previously exist is an idea that could be applicable to affordable housing, particularly in the arena of moving families into homeownership.

Helping Low-Income Families Build Wealth

Section 8 Homeownership Program

The state could increase the opportunities for some low-income renters to move from perpetual reliance on federal Section 8 vouchers to achieving the American dream of homeownership. Since 2000, the federal Section 8 voucher program has permitted local public housing authorities (PHAs) to use some of their rental vouchers to supplement mortgage payments. To date, most PHAs in Minnesota have not chosen to participate in the homeownership program, arguing that the time required to help clients through the process is simply too labor intensive given current staffing.

This homeownership program, which enables families to use their vouchers for mortgage payments for up to fifteen years, has all the hallmarks of a successful "hand-up" to low-income families.[90] Eligible families are able to choose the home, location, and lender. They are able to build equity and later sell the home at market rate, with a portion of the sale being "recaptured" by the PHA, but the remainder belonging to the family. The homeownership program fosters individual choice, independence, and helps families build wealth.

Contrast these results with Section 8 rental vouchers, which build no equity and, unlike the homeownership program, have no time limit. Although there are individuals and groups who are simply not able to move into homeownership, they are the exception, rather than the rule, and they would not likely meet the eligibility criteria for the homeownership program anyway.

Unfortunately, because of the initial time commitment necessary to help families achieve homeownership—paperwork, financial counseling—many PHAs do not offer the homeownership option to their Section 8 rental voucher clients. Once again, as we experienced with welfare, the "system" is

failing to move families from dependence to independence because of the inherent nature of bureaucracy.

This program is ripe for Goldsmith's "marketization" approach. Minnesota should request a waiver from HUD to allow nonprofits, foundations, and for-profit companies to compete for the right to administer the homeownership program. This would relieve PHAs of the burden of providing the service and would open up tremendous opportunities for eligible families.

Since the inability to save for a down payment is one of the biggest barriers to homeownership, these groups could also develop programs (or partnerships with existing state and private programs) to provide down-payment assistance to families as part of the package of services they provide to administer the homeownership program.[91]

"Renewing the Dream" Tax Credit Act (HR 839/S 875)

One of the obvious problems with the homeownership program described above is that families won't be able to take advantage of the program (if, indeed, it becomes more widely available) if there isn't an adequate supply of affordable homes to purchase.

A bill introduced in Congress this spring would address this supply issue by giving a "tax credit to developers/investors who build or substantially rehabilitate homes for sale to low-income buyers in targeted communities."[92] Under this proposal, states would be given tax credit authority of $1.75 per capita annually ($2 million per state minimum), indexed for inflation. A maximum credit of 50 percent of construction, substantial rehabilitation, and building acquisition costs (not land acquisition) would be given for eligible properties in targeted areas. Those locations include: census tracts with median incomes less than 80 percent of area or state median; rural areas eligible for USDA housing programs; Indian tribal lands; and areas of chronic economic distress designated by the state (subject to HUD disapproval within sixty days). The homebuyer's income limit is generally up to 80 percent of the area or state median, but may be up to 100 percent of area median income low-income census tracts.[93]

The tax credit would be claimed by investors only after the home had been sold to an eligible buyer and the credit could be claimed over five years.

Originally part of President Bush's budget proposal, the bill had strong bipartisan support in the House (200 co-sponsors) and the Senate (twenty-nine co-sponsors). Although the bill did not make it out of the tax committees last year, it could become part of a larger package this year.

While providing tax incentives to spur production of affordable housing specifically for homeownership by low-income families seems promising, the devil is in the details. If the mistakes of the '80s can be avoided—when accelerated depreciation was used to create an incentive for production of multi-family rental housing—this program may be a strong engine for spurring the production of affordable housing *and* helping low-income families build wealth.

Conclusion

While certain aspects of regional development are necessary and require long-range planning, many of the restricted growth management policies adopted in the Met Council's *Framework 2030* need to be re-examined in light of the evidence of their ineffectiveness and their negative impact on the supply of affordable housing. Utopian visions, no matter how appealing, cannot be achieved by government mandates. In a democracy, politics is the "art of the possible" and it would not be possible to take away the freedoms necessary to accomplish the goals of restrictive growth advocates.

Rather than aiming for an ideal that cannot be achieved through regulation and mandates—and which may not be shared by everyone—we should increase the supply of developable land and reform building codes and local zoning ordinances to allow greater freedom to meet the demand for affordable housing. We could use the resources currently spent on restricting growth to encourage local governments, developers, and non-profits to build or rehab housing that is more affordable for the lowest-income families in our communities.

Finally, and perhaps most importantly, we should look for ways to use market forces to help those with the lowest incomes use their government subsidies to build wealth through homeownership. Since these families are currently eligible to receive government housing assistance for life (unless their income increases), doesn't it make sense to use that subsidy in a way which will foster independence?

As with most policy decisions, there's no single program or approach (increasing production vs. increasing income supports) that will be the silver bullet to provide adequate affordable housing. But that is precisely why the smart growth restrictions, which try to impose a singular vision on a diverse society, won't work and will only exacerbate the affordability problem.

Minnesotans value decent housing at prices that don't deprive us of other pleasures in life. We value the environment. We value our freedom to drive our cars, ride our bikes, and make our own trade-offs between commuting time and the size of our backyards. We value our traditions and our growing diversity. We value education and faith.

All of these things are important to all of us in varying degrees, and individuals and families are most likely to find their own equilibrium when they have the maximum freedom to make choices about where they will live, work and go to school. Rather than driving up costs by prescribing development in certain areas along specific corridors, public officials should use scarce public resources to provide incentives for reducing costs and increasing affordability.

The American Dream has never been achieved by regulation, government mandates or central planning. The state, Met Council and municipalities would do well to remember that and abandon the restrictive growth policies that drive up housing costs and keep the dream out of reach for many lower-income families in our state.

Notes

1 Office of the Legislative Auditor; State of Minnesota. "Program Evaluation Report: Affordable Housing." January 2001. p. 5

2 U.S. Department of Housing and Urban Development. Memo from research staff at the Metropolitan Council.

3 Regional Housing Data Snapshot. Metropolitan Council. December, 2002. p. H-18.

4 U.S. Census Bureau, Census 2000. Table DP-1.

5 Author's calculations based on 2000 Census data.

6 1990 Census of Housing. General Housing Characteristics: Minnesota. U.S. Department of Commerce; 1990 CH-1-25. Issued August 1992.

7 U.S. Census Bureau, 2000 Census. *State and County QuickFacts*. Minnesota, p. 1. http://quickfacts.census.gov/qfd/states/27000.html.

8 1990 Census of Housing. General Housing Characteristics: Minnesota. U.S. Department of Commerce; 1990 CH-1-25. Issued August 1992.

9 U.S. Census Bureau, 2000 Census. *State and County QuickFacts*. Minnesota, p. 1. http://quickfacts.census.gov/qfd/states/27000.html.

10 The median home price in the Twin Cities in 2000 was $140,507 (2000 Census). By June 2003, the median home price in the Twin Cities was $201,500. *Star Tribune*, July 16, 2003. p. A8.

11 U.S. Census Bureau, 2000 Census. *State and County QuickFacts*. Minnesota, p. 2.

12 Ibid.

13 Bureau of Labor Statistics. Annual Wage Survey for Covered Workers from 2000-2001.

14 "Minneapolis-St. Paul Metropolitan Area Comparison." April 2002. pp. 1-2. http://www.mnplan.state.mn.us/demography/FactSheets/MSACompare/.

15 *Star Tribune*, December 13, 2003, p. H36.

16 Regional Housing Data Snapshot. Metropolitan Council. December 2002.

17 Office of the Legislative Auditor; State of Minnesota. "Program Evaluation Report: Affordable Housing." January 2001. p. 5.

18 U.S. Census Bureau, Census 2000. "Profile of General Demographic Characteristics for the Twin Cities 7-County Area: 2000." Table DP-1.

19 "Regional Housing Data Snapshot." Metropolitan Council. December 2002. p. H-15.

20 Note: "Hispanic" is an ethnicity, not a race. Therefore those listed under "Hispanic" have been accounted for above in the various race categories; i.e., "white Hispanic," "black Hispanic," etc.

21 Author's calculations based on U.S. Census. 1990, 2000.

22 Author's calculations based on census data. 1990, 2000.

23 Jargowsky, Paul A. "Stunning Progress, Hidden Problems: The Dramatic Decline of Concentrated Poverty in the 1990s." Center on Urban and Metropolitan Policy, The Living Cities Census Series. The Brookings Institution. May 2003. p. 2.

24 The Metropolitan Statistical Area (MSA) that includes Minneapolis, St. Paul and western Wisconsin was fourteenth in the list of the top fifteen MSAs

with declines in population in high poverty neighborhoods. Between 1990 and 2000, the absolute decline in population of high-poverty neighborhoods in the Twin Cities MSA was 32,005. This was a 40.5 percent decline in population in high poverty neighborhoods and a decrease in the number of high-poverty census tracts by eighteen. This same study notes that all racial and ethnic minorities shared in the decline of the concentration of poverty in the 1990s. The Twin Cities MSA ranked second in the decline of the concentration of black and Hispanic poverty in the twenty largest metro areas. The concentration of blacks in poverty in the Twin Cities declined by 20.4 percent and the concentration of Hispanics in poverty declined by 12.3 percent. Ibid. p. 6, 10. While these findings are certainly good news, they beg the question of what happened to those who left the high-poverty neighborhoods. Did their income increase, such that they no longer qualified as "poor," yet they remained in the neighborhood? Did their income increase and they moved to higher-income neighborhoods? Did they remain poor and move to other neighborhoods, such as first-ring suburbs, which saw an increased concentration of poverty? Ibid. p. 2. Did they leave the state, move in with family or friends, etc.?

25 Salins, Peter. "New York City's Housing Gap Revisited." Civic Report, No. 25, February 2002, p. 3.

26 1990 Census and 2000 Census.

27 20,934/29,773 x 100 = 70.3 percent.

28 Salins, Peter. p. 3, 14.

29 "Older Housing in the Twin Cities Metro Area: The Forgotten Issue," 1996 North Metro Mayors' Association, November 1996, in "Workforce Housing: The Key to Ongoing Regional Prosperity," by Maxfield Research Inc. and GVA Marquette Advisors. September 2001. p. 16.

30 Feldman, Ron. August, 2002. "The Affordable Housing Shortage: Considering the Problem, Causes and Solutions." Federal Reserve Bank of Minneapolis. Banking and Policy Working Paper 02-2. Note: This notion of supplementing income directly (though not in the way Feldman suggests) was also suggested to me by some housing advocates.

31Data on this point was not available because it is considered proprietary information.

32 Office of the Legislative Auditor. p. 35.

33 Johnson, William C., "Growth Management in the Twin Cities Region: The Politics and Performance of the Metropolitan Council." Center for Urban and Regional Affairs, Hubert H. Humphrey Center, University of Minnesota. 1998. pp. 39-40.

34 It is important to note here the conceptual framework under which these Local Comprehensive Plans (LCPs), as they are known, were mandated. Under the *Framework* adopted in 1976, the Met Council decided to "make its own [growth management] policies and expect the local governments to adapt their plans accordingly, rather than form its strategies to fit plans already made by localities. Thus the development framework was not a mere composite of municipal policies." Johnson, pg. 39. The LCPs were to be consistent with the Met Council's plan for regional systems (highways, sewer, transit, airports and regional parks) and the Met Council could require changes to ensure compliance with system plans. Johnson, p. 40.

35 Johnson, William C. p. 41.

36 Ibid. p. 46.

37 In addition, some land trades were approved under which a city could extend the MUSA to one area if it withdrew a parcel of equal or larger size elsewhere. These additions increased the urban service acreage by 2 percent. Ibid.

38 Ibid. p. 57.

39 Office of the Legislative Auditor. p. 36.

40 Ibid. p. 35.

41 Office of the Legislative Auditor. p. 35-6.

42 It appears that the Met Council's methodology has since improved and they are now attempting to maintain a 20-year supply of developable land. This longer time horizon would give cities more flexibility regarding where development occurs and could also help reduce cost pressures caused by limiting the supply. According to the *Framework 2030*, the metropolitan area would need to add 16,500 residential acres to the MUSA before 2010 to accommodate the growth forecast for 2030.

43 Charles, John A. "Squeezed Out: No Swingset, No Sandbox, No Space Left for the American Dream." Policy Perspective, No. 1014, February 2000. Cascade Policy Institute, Portland Oregon. p. 2.

44 Office of the Legislative Auditor. p. 37.

45 Ibid., p. 38.

46 Ibid., p. 40-1.

47 Minn. Laws (1991), ch. 149, sec 4. in Office of the Legislative Auditor. pp. 42-3.

48 Office of the Legislative Auditor p. 43. The report notes that some local builders estimate the increased cost of these measures is more likely to be $3,000 - $8,000 or more.

49 Ibid., p. 30.

50 Variations of this view were shared with me by housing advocates, developers, and business groups.

51 Office of the Legislative Auditor. p. 48.

52 Office of the Legislative Auditor. pp. 22, 48.

53 In 1991 the average effective tax rate on rental housing of 4 or more units was 3.74 percent and 3.54 percent on buildings with less than four units. The effective tax rate on owner-occupied housing was 1.42 percent. Office of the Legislative Auditor. pp. 60-1.

54 In 2000 the average effective tax rate on rental housing of 4 or more units was 2.85 percent and 1.84 percent for building with less than four units. The effective tax rate on homesteads had dropped to 1.37 percent during this same period. Ibid.

55 Rates on rental properties with four or more units dropped to 1.25 percent and rates on homestead properties dropped to 1 percent. Source: Minnesota Mulit-family Housing Association.

56 Malpezzi, Stephen and Green, Richard K. 1996. "What has happened to the bottom of the U.S. Housing Market?" Urban Studies 33 (10): 1807-1820. in Feldman, Ron. August, 2002. "The Affordable Housing Shortage: Considering the Problem, Causes and Solutions." Federal Reserve Bank of Minneapolis. Banking and Policy Working Paper 02-2. p. 10.

57 Jargowski. p. 2.

58 Metropolitan Council. *2030 Regional Development Framework*. October 15, 2003. p. 2.

59 I gratefully acknowledge the excellent, professional help I received from the Met Council staff in compiling the research for this paper.

60 Ibid. p. i.

61 Met. Council. *2030 Regional Development Framework*. October 15, 2003. p. 6.

62 Ibid.

63 Ibid. pp. 6-7.

64 Office of the Legislative Auditor. pp. 30-1. According to the Auditor's report,

developers said, "undeveloped land zoned for 4 units/acre is generally more valuable than an equivalent piece of land zoned for two units/acre."

65 This was borne out in studies I read about Washington state and Florida and is also true in the Twin Cities metropolitan region. Counties with higher densities experience higher rates of housing appreciation. Staley, Samuel R. and Leonard C. Gilroy. *Smart Growth and Housing Affordability: Evidence from Statewide Planning Laws*. Reason Public Policy Institute. Policy Study 287. December 2001. p. Iii.

66 Met. Council. October 15, 2003. p. 11.

67 Cox, Wendell. "So-Called Smart Growth: Elitist Assault on the American Dream." Independence Institute. No. 6-2000. September 22, 2000. p. 8.

68 According to the Environmental Protection Agency (EPA), two of the three primary air pollutants from mobile sources (street and highway traffic) are carbon monoxide (CO) and Volatile Organic Compound (VOC). To minimize pollution from both of these sources, the optimal average speed is approximately fifty-five miles per hour. Reducing average speeds to thirty-five mph increases pollution by approximately 30 percent. Reducing average speeds to twenty mph increases pollution 110 percent to 140 percent and ten mph 335 percent to 380 percent. Because the third primary mobile source pollutant, nitrogen oxide (NOx), increases rapidly above forty-five mph, the optimum operating speed with respect to these three air pollutants is approximately forty-five mph. Therefore, it appears that increasing density and congestion, which would result in slower average auto speeds, would actually increase pollution. Cox. pp. 5, 7.

69 Charles, John A. "They mythical world of Transit Oriented Development." Cascade Policy Institute. Policy Perspective No. 1019, October 2001. p. 3.

70 Staley, Samuel R. and Mildner, Gerard C.S.. "Urban-Growth Boundaries and Housing Affordability: Lessons from Portland." Reason Public Policy Institute. October 1999. pp. 10-11.

71 Blueprint 2030. p. 13.

72 Ibid. p. 13.

73 Met. Council. October 15, 2003. p. 6.

74 Ibid. p. 12.

75 Ibid.

76 "First Homes" in Rochester, Minn., was a collaborative effort by the Mayo Clinic, the Rochester Chamber of Commerce and others to increase the supply of workforce housing in Rochester. In Austin, MN, the Hormel Company took the lead in developing workforce housing to meet the needs of its employees in the area.

77 Ibid. p. 33.

78 Met. Council. October 15, 2003. p. 8.

79 Ibid. p. 31.

80 Ibid. p. 34.

81 Ibid. p. 33.

82 Staley Samuel R. and Mildner, Gerard C.S.. p. 7.

83 Ibid. pp. 8-9.

84 Ibid. p. 8.

85 Feldman argues that the fundamental reason for the shortage of affordable housing is a lack of income. He cites data which shows that if housing costs were reduced by 15 percent, a substantial portion of the very- and extremely low income families would still not have affordable housing under the 30 percent definition. Feldman, Ron. August 2002.

86 Met. Council. October 15, 2003. p. 36.

87 Goldsmith, Stephen. "The Twenty-first Century City: Resurrecting Urban America." The Manhattan Institute. 1997. p. 19.

88 Ibid. p. 20.

89 Ibid. pp. 17-22.

90 There is no time limit on the home-ownership voucher for disabled or elderly recipients.

91 HUD has a down-payment assistance component to its homeownership program, but it is currently not operational due to lack of funds. The proposed rules would allow a family who is eligible for the homeownership program to opt for a one-time grant of the total of 12 months worth of voucher payments. The grant could be used as a down payment on a home, but the family would then forfeit the right to further housing assistance.

92 "HR 839: Renewing the Dream Tax Credit." Fact sheet provided by Rep. Rob Portman's office. Washington, DC. ■