



City Council Agenda

Monday, September 19, 2011

6:00 p.m.

City Council Chambers

(Times are Approximate)

- | | |
|-------------------|--|
| 6:00 p.m. | 1. Roll Call
Voting & Seating Order for September: Willmus,
Pust, McGehee, Johnson, Roe |
| 6:02 p.m. | 2. Approve Agenda |
| 6:05 p.m. | 3. Public Comment |
| 6:10 p.m. | 4. Council Communications, Reports and Announcements |
| | 5. Recognitions, Donations and Communications |
| | 6. Approve Minutes |
| | 7. Approve Consent Agenda |
| | 8. Consider Items Removed from Consent |
| | 9. General Ordinances for Adoption |
| | 10. Presentations |
| | 11. Public Hearings |
| | 12. Business Items (Action Items) |
| | 13. Business Items – Presentations/Discussions |
| | a. Long Range Planning Discussion |
| (20-30 minutes) | i. Current Situation |
| (Up to 1.5 hours) | ii. What Do We Want? |
| (Up to 1.5 hours) | iii. How Do We Get There? |
| | 14. City Manager Future Agenda Review |
| | 15. Councilmember Initiated Items for Future Meetings |
| | 16. Adjourn |

Some Upcoming Public Meetings.....

Council Agenda - Page 2

Monday	Sep 26	6:00 p.m.	City Council Meeting
Tuesday	Sep 27	6:30 p.m.	Public Works, Environment & Transportation Commission
Tuesday	Oct 4	6:30 p.m.	Parks & Recreation Commission
Wednesday	Oct 5	6:30 p.m.	Planning Commission
Monday	Oct 10	6:00 p.m.	City Council Meeting
Tuesday	Oct 11	6:30 p.m.	Human Rights Commission
Monday	Oct 17	6:00 p.m.	City Council Meeting

All meetings at Roseville City Hall, 2660 Civic Center Drive, Roseville, MN unless otherwise noted.

REQUEST FOR COUNCIL DISCUSSION

Date: September 19, 2011
Item No.: 13 . a

Department Approval



City Manager Approval



Item Description: Long Range Planning Discussion

BACKGROUND

The City Council has scheduled this time to discuss long-range planning take a look at development in the community and begin to look at how to identify and attract desirable development within Roseville. In this report, staff has laid out the points previously identified by the City Council as topics of discussion.

GUIDING DOCUMENTS

There are several guiding documents that the City Council should be aware of and have knowledge of for a basis of this discussion. They include:

- 2030 Comprehensive Plan (Selected Chapters, Attachment A)
- Imagine Roseville 2025 (Attachment B)
- Roseville HRA Strategic Plan (Attachment C)
- 2009 Housing Needs Analysis (Summary, Attachment D)

MARKET VALUE

The following table depicts the citywide market value since 1998.

	Citywide	
	<u>Market Value</u>	<u>% Change</u>
1998	2,003,074,080	-
1999	2,186,786,652	9.2%
2000	2,412,333,500	10.3%
2001	2,649,745,900	9.8%
2002	2,951,381,700	11.4%
2003	3,247,056,900	10.0%
2004	3,567,205,800	9.9%
2005	3,918,559,500	9.8%
2006	4,217,700,075	7.6%
2007	4,514,526,750	7.0%
2008	4,446,188,250	-1.5%
2009	4,256,769,300	-4.3%
2010	4,078,894,000	-4.2%
2011	3,928,959,000	-3.7%

As the table indicates, the City's tax base grew by an average of 9.5% per year from 1998-2007. This period featured new commercial development within the City including the Rosedale expansion and the new Rainbow Foods store, as well as new multi-family housing starts such as Applewood Pointe and Greenhouse Village. It also coincided with a period of strong national and local economic growth which resulted in steadily-rising property values.

Beginning in 2008, the tax base began to shrink due to a sustained downturn in the economy. During this time, many commercial properties including Rosedale and Symantec were successful in getting their assessed market values reduced. In addition, the national housing market collapse eventually reached Roseville causing housing values to drop significantly.

While many economic indicators have shown improvement during the past year, the factors affecting the City's tax base continue to temper any market-driven rebound. The City's tax base is not expected to increase until 2013 at the earliest.

WHAT DOES ROSEVILLE HAVE?

Community – Staff has prepared a fact sheet detailing the demographic information from 2010 US Census. (Attachment E) Some highlights from this data is as follows:

- Roseville's population went down by 30 people and our median age went up a year to 42.1 years of age.
- While Roseville continues to have 20% of its population 65 years or older, there has been a modest increase (7.3%) in children under 10 living in Roseville.
- Roseville has become more diverse, with increases in all minority populations, especially for Black/African American and Hispanic populations.
- Roseville's percentage of family households have decreased slightly, while non-family households, including those living alone have increased.
- Roseville's average household size has remained at 2.2 persons per household.
- Roseville has a population that is older, is slightly less diverse, has fewer family households with children and has more people living alone when compared to the rest of the Twin Cities Metro area,

Housing – Staff has prepared a fact sheet detailing the type and number of housing units in Roseville. (Attachment F). Some highlights from the data is as follows:

- Two-thirds of Roseville's housing units are owner-occupied, with the remaining one-third being rental housing units.
- One-third of Roseville's housing units have persons living alone in them, with the number slightly increasing when compared to 2000.
- The average household size remained at 2.2 persons per unit, but there was a slight increase in the household size for rental units (from 1.69 persons to 1.92 persons).
- Slightly more than 50% of the population lives in a housing unit with a mortgage, while 20% live in an owner occupied home without a mortgage. The remaining population live in a rental unit.

- Similar to the community’s demographics, whites are the predominant owner of owner-occupied and rental unit. Non-white peoples did make slight gains in the number of owner-occupied and rental units however.

Business – Staff has prepared a fact sheet detailing the type and number of businesses in Roseville. (Attachment G). Some highlights from the data is as follows:

- Roseville has a total of 2,654 businesses that have 36,337 jobs.
- The greatest numbers of businesses fall in the following categories: Professional, Scientific, and Technical Services (400); Retail Trade (347); and Administrative Support and Waste Management (309).
- The greatest number of jobs are in Retail Trade (6,057); Professional, Scientific, and Technical Services (6,055), and Accommodation and Food Services (3,437)
- After factoring out business categories with a small sample size (namely Utilities, Educational Services, and Public Administration), the businesses that have the largest number of jobs per business in that category are Accommodation and Food Services (29.4 jobs per business); Manufacturing (22.0 jobs per business); and Information (21.5 jobs per business).

What do these demographics mean for the future? It is difficult to say for sure, especially for Roseville. Staff has researched what the future will bring for development given the overall changing demographics and stalled economy. Staff has included a couple of articles that attempt to answer those questions. (See Attachment H). Some highlights from the articles are as follows:

- There will be more “Responsible” development that will have a high social and environmental value versus the “Commodity” development that has taken place in the post-WWII era. Commodity development is the cookie-cutter approach to development, a one-size fits all solution regardless of context or community. Responsible development is high in innovation and creativity and takes the local context into account while being financially responsible and will deliver long-term value to investors and the community, both socially and economically.
- Demographic trends, and not just government policies, are shifting the development industry to more transit-friendly and walkable locations rather than the cheapest available sites.
- There needs to be financial support from the government for developers who choose to do “Responsible” development versus “Commodity” development to level the playing field as the industry changes.
- The use of green technology in development is changing from a niche market to mainstream. This will especially be evident in the housing market where it is predicted by 2020 that net-zero-energy homes will be the standard for newly built homes.
- The general population has a greater awareness of transportation costs, both in actual dollars and time. Although housing and land is cheaper the farther out one is from the urban core, people are more interested in being closer to the activity due to high transportation costs.
- For housing, we can expect that there will more renters, both in quantity and as a percentage, given the tight credit market and demographics.
- The increase in ethnic diversity will force development to consider the different needs of each group.
- Fewer people will be driving to work by car five days a week due to increase transportation costs, flexible job schedules, and the lack of full-time jobs.

- People will prefer to live in a place that has services such as medical or educational services.
- The 24/7 world is here to stay and development will be taking that into account, especially in its location.
- Because of the large demographic segments the Baby Boomers and Generation Y represent, there will be an increase in marketing and development geared directly to their needs.
- Boomers, unless they are underwater with their mortgage, will prefer to move from the outlying suburbs to the core cities and first-ring suburbs.

WHAT DOES ROSEVILLE WANT OR NEED?

Prior to identifying what Roseville wants or needs to have in relation to development, Staff feels there should be some method or criteria in which the analysis is done. Staff has identified three factors to be considered as shown on the chart.



Identified Wants – These inputs are items that have been previously identified as desirable and needed for the community through existing documents (i.e. Comprehensive Plan, HRA Strategic Plan) or a public engagement process (Imagine Roseville 2025).

Market Needs – These inputs are the identified gaps and niches that the private market feels belong in the City of Roseville. These are typically dictated by market studies, but also can be based on future market demands and trends.

Positive Tax Return - This input is based on the premise that the City typically does not want development and/or uses that cost more to provide services for than the revenue brought in.

While each input individually may be sufficient to have as a basis for targeting certain development, it seems that if efforts are made towards satisfying all three inputs when targeting development, it would be a win-win-win situation. For instance, if there is a type of development identified by the community as desirable, but the market cannot support or sustain the use, it very unlikely that the use would be developed in the first place, and if it did, it would need to be heavily subsidized, thus affecting the tax return. Conversely, there may be a use that the market identifies as a need, but that doesn't provide a positive tax return. Therefore, a discussion on what the community should have should look at the abovementioned inputs at the very least, and ideally meet all three inputs

140 So with that in mind, Staff has started the analysis of “What Roseville Wants”.

141 **Housing** – *What are the Market Needs, Identified Wants, Positive Tax Return for housing?*

142 For housing, we do have lots of information that can help answer the question.

143 **Market Needs.** The 2009 Housing Market Analysis conducted for the HRA, has good information for
144 beginning to understand what the market is demanding. The HRA intends to conduct a market analysis
145 every five years, but the City may want to consider updating the information. See Attachment D for
146 information from the Market Analysis. During the period from 2009-2020, the report identifies the
147 following:

- 148 • A need of 40-50 new single family homes of which 25-30 would be “move-up” homes priced
149 between \$350,000 to \$500,000 and 15 to 20 homes would be executive homes priced above
150 \$500,000.
- 151 • A need of 60-70 entry level attached owner occupied multi-family units priced below \$275,000
152 and 40-50 upper-end units priced above \$300,000.
- 153 • A need for 80-100 market rate rental housing units and 80-100 affordable rental units.
- 154 • A need for 80-90 units of mixed income active adult senior citizen rental housing units.
- 155 • A need for a 60-70 unit senior cooperative or condominium building.
- 156 • A need for an additional 40-50 assisted living units and 24-36 memory care units.

157 The report also identifies some challenges and opportunities within Roseville, namely that there is not a
158 lot of available land for new housing to be developed on, and given that short supply, housing densities
159 will need to be high to accommodate the market demand. The report, while acknowledging that there is
160 a good supply of affordable housing in Roseville, states there still is a need for more diversity in the
161 affordable housing mix, especially for family and senior households. In relation to the aging of
162 Roseville’s population, the report states that the baby boomer generation will look for more
163 “maintenance free” housing options in the near future, and won’t demand senior housing with services
164 in large numbers until after 2020. The report recommends that the City continue to look at
165 partnerships with housing developers to bring needed projects forward and identifies that the
166 redevelopment of Twin Lakes area may foster additional housing demand once it is fully built-out.

167 **Identified Wants.** The 2030 Comprehensive Plan and Imagine Roseville 2025 identifies numerous
168 types of desirable housing for Roseville. See Attachments A and B for details on desired housing.
169 Some items from these documents include:

170 **Comprehensive Plan**

- 171 • Land Use Goal #3 Identify underutilized, deteriorated, or blighted properties and guide
172 them toward revitalization, reinvestment, or redevelopment consistent with community
173 goals, good planning and development principals.
- 174 • Land Use Goal #7 Achieve a broad and flexible range of housing choices within the
175 community to provide sufficient alternatives to meet the changing housing needs of
176 current and future residents throughout all stages of life.
- 177 • Housing Goal #1 Provide a wide variety of housing options in order to retain and attract
178 a diverse mix of people and family types with varying economic statuses, ages, and
179 abilities.

- Housing Goal #4 Integrate environmental stewardship practices into the housing stock and neighborhoods.
- Housing Goal #5 Continue support of housing and neighborhood programming provided by the HRA that addresses community needs.

Imagine Roseville 2025

- Community Goal #2, Roseville is a desirable place to live, work , and play. Strategy C: Provide regional leadership in creative and sustainable redevelopment.
- Housing Goal #1 Roseville Housing meets community needs, Strategies A-F

Positive Tax Return Unfortunately, Staff doesn't have any direct information regarding uses in Roseville and the costs they incur on the City versus the revenue they bring in. In order to really understand the effect of uses on City services, a fiscal impact study should be done for the City. The fiscal impact study would look at the total cost of city services and compare that with tax and other city revenue those uses bring directly to the City. From that analysis, one would be able to determine what uses provide a positive tax benefit and negative tax benefit. Typically, with fully built-out cities, new development does not impact the City services as much as a rapidly growing city. This is due to the fact that most development in built-out cities is infill and thus, roads and sewer already serve the property, the police and fire department are already responding to that property, etc. Of course, the new use could increase the intensity of use of the City services, but typically the cost impacts would be more incremental than a large jump. Also, conventional wisdom holds that commercial uses use less city services than residential. Although that is not universally true, one can see that residential uses can have a greater use of city services especially for trails, roads, parks, elections, etc. (and not to mention schools).

To properly understand the relationship of City services to development, Staff would suggest the City explore the use of a fiscal impact study. A few months ago, the City Manager and several Department Heads met with representatives of ULI and the University of Minnesota to discuss fiscal impact studies. They indicated that they may be doing fiscal impact study "pilot projects" in the metro. Staff is checking with them to see if there would be a possibility for Roseville to participate. Such a study would look at both residential and commercial use and its impact on City services and determine whether types of development bring a positive or negative tax return.

See Attachment I for additional information regarding housing.

Business – *What are the Market Needs, Identified Wants, Positive Tax Return*

Market Needs. The City currently does not have any specific information about our community that pinpoints commercial and industrial needs. As shown in Attachment G, we do know the type of businesses Roseville currently have, but whether we have too much or not enough of certain businesses is unknown.

Similar to what the HRA undertook regarding housing, staff would suggest that a business market study to provide information on what additional capacity we have for businesses, with detail specifically that pinpoints the type of businesses would be successful in our market. Having this information will not only maximize the benefit to the community by bringing businesses that are needed by the community, it will also allow the City to be efficient in its efforts to target certain businesses for recruitment

221 Identified Wants. The 2030 Comprehensive Plan and Imagine Roseville 2025 identifies numerous
222 types of desirable commercial and industrial development for Roseville. See Attachments A and B for
223 details on desired business development. Some items from these documents include:

224 Comprehensive Plan

- 225 • Land Use Goal #3 Identify underutilized, deteriorated, or blighted properties and guide
226 them toward revitalization, reinvestment, or redevelopment consistent with community
227 goals, good planning and development principals.
- 228 • Land use Goal #9 Provide attractive, inviting, high-quality retail shopping and service
229 areas that are conveniently and safely accessible by multiple travel modes including
230 traffic, walking , and bicycling.
- 231 • Land Use Goal #10 Promote an appropriate mix of commercial development types
232 within the community.
- 233 • Land Use Goal #11 Achieve a healthy balance between commercial and employment
234 land uses to maintain a sound and diversified economic base and living-wage jobs.
- 235 • Land Use Goal #14 Promote and support the development of mixed-use areas that have a
236 rich mix of related and mutually reinforcing uses within walking distance of each other.
- 237 • Economic Development and Redevelopment Goal #1 Foster economic development and
238 redevelopment in order to achieve Roseville’s vision, create sustainable development,
239 and anticipate long-term economic and social changes.
- 240 • Economic Development and Redevelopment Goal #2 Enhance opportunities for business
241 expansion and development that maintains a diverse revenue based in Roseville.
- 242 • Economic Development and Redevelopment Goal #4 Encourage reinvestment,
243 revitalization, and redevelopment of retail, office, and industrial properties to maintain a
244 stable tax base, provide new living-wage job opportunities, and increase in the aesthetic
245 appeal of the city.
- 246 • Economic Development and Redevelopment Goal #5 Make effective use of available
247 financial resources to facilitate community economic development and redevelopment
248 objectives.
- 249 • Economic Development and Redevelopment Goal #6 Integrate environmental
250 stewardship practices into commercial development.

251 Imagine Roseville 2025

- 252 • Community Goal #2, Roseville is a desirable place to live, work, and play. Strategy C:
253 Provide regional leadership in creative and sustainable redevelopment.
- 254 • Community Goal #2, Roseville is a desirable place to live, work, and play. Strategy D:
255 Enhance the city’s diverse business community.
- 256 • Environment Goal #1, Roseville is an environmentally healthy community, Strategy B:
257 Reduce negative human impacts by conserving energy and reducing pollution.
- 258 • Infrastructure Goal #3 Roseville has technology that gives us a competitive advantage,
259 Strategy A: Ensure that the technology infrastructure is in place to optimize public and
260 private sector performance.

- Finance and Revenue Goal #2 Roseville has a growing, diverse, and table revenue base.

Positive Tax Return As earlier discussed as part of the housing discussion, Staff recommends that a fiscal impact study be conducted in order to truly understand the cost of new commercial development to City services.

What policies are supportive in fostering these wants and needs? What policies are counterproductive in fostering these wants and needs? What policies are missing in fostering these wants and needs?

Although, it may be too early to discuss what policies support, are counterproductive, or missing in assisting the City to attract development that is desirable to the City, staff would suggest that the City Council have a discussion on their perceptions from the information we do know. This discussion should be revisited once the City has additional information regarding market needs and the fiscal impact of development.

HOW DOES ROSEVILLE GET THERE?

An exact roadmap on how we “get there” will really be dependent on what the information shows, so it may be somewhat premature to define it exactly. The full plan on implementing an economic development initiative will need have more information before an effective blueprint can be created.

Nevertheless, staff believes the City Council should have some general discussion on the components that should be considered as part of the effort/plan. A brief summary of each component is below.

Resources – The City will need to appropriate the necessary resources to ensure that the economic development efforts are effective. These may include funds for marketing to new and existing businesses, monetary incentives to locate in Roseville, loan programs, land purchase, and training.

Staffing – The City most likely will need additional staffing assistance for any economic development. The costs will be dependent on what type of staff is needed and will also include any supplies and equipment needed for the staff.

Policy Boards – It is likely that the City Council may want to consider either expanding or creating policy boards to assist in the implementation of the City’s economic development efforts. There are several options to consider including expanding the role of the existing HRA or the existing Roseville Port Authority, creating a new Economic Development Authority, which has separate levy authority. Below is brief description of the types of policy boards the City could have:

- Economic Development Commission: A board used to advise a City Council, appointed by the Mayor and/or City Council. It has limited or no decision making authority and is used as a sounding board or as a first point of contact for the City Council on development projects. The commission is used to draft strategies and policies for ratification and implementation of local plans on a volunteer basis.
- Housing and Redevelopment Authority: An HRA is a public corporation with power to undertake certain types of housing and redevelopment or renewal activities. While state legislation conveys authority for housing and redevelopment to each City, it is up to the City Council to formally establish and HRA. An HRA can undertake certain types of planning and redevelopment activities on its own with City Council approval.
- Port Authority: A Port Authority is established to promote the general welfare of the City’s port district, increase the volume of commerce in the port, and provide facilities for handling, storage, and shipment of freight. The Port Authority actively develops commerce within the City and can enable business location and expansion. The powers of a Port Authority are more

expansive than an EDA or HRA. Unlike those two bodies, a Port Authority can issue general obligation bonds without holding an election.

- Economic Development Authority: An EDA is created by a City or County to facilitate development by taking advantage of some of the Port Authority powers and all of the HRA powers. By combining and utilizing the HRA, EDA, and City power, the community is able to create flexible business assistance and development programs. EDAs are allowed to buy and sell property, make loans and grants to businesses, provide guarantees or other credit enhancements, and to sell bonds. The City may consolidate the EDA with an existing HRA or the City may establish the EDA as a separate entity. EDAs may also exercise eminent domain powers.

See Attachment J for more detailed information on the tools available for these policy boards.

Regulatory Changes – As an outcome of the discussion on what policies are barriers or missing in furthering the City’s economic development efforts, there most likely will be a need to change City’s regulations, specifically the zoning code. These changes cannot be determined at this time, but would need to take place as part of an overall economic development effort.

Role of Public – It is unknown at this time of what, if any, role the general public should have in assisting the economic development efforts. Certainly, as part of the information gathering and creation of the economic development plan, the public should be involved. The opportunity for public involvement may be limited when the economic development efforts are being implemented, with the exception of serving on the policy boards.

Regional Initiatives In the past few years, there has been a renewed interest in regional economic development for the Twin Cities Metro Area. *The Itasca Project* is a business-led regional economic development effort whose goals are to build a thriving economy and quality of life for the region and reduce and eliminate socioeconomic disparities. The new *Regional Economic Development Partnership (REDP)* was created in March 2011 to set a strategic regional economic development vision for the Twin Cities, to brand and market the region, and to retain current businesses in the region. The REDP is a public-private partnership is funded through businesses and governments. The REDP released a Minneapolis – St. Paul Business plan which is included in Attachment K. This document describes many issues that the whole region needs to address to keep the area economy in good health. One item is to gain a better understanding of what “clusters of industry” the region has and concentrate on expanding those types of industry. The report identifies the top three as Medical Devices, Distribution Services, and Financial Services. The concentration of businesses attract similar firms and labor force to the area, which is something Roseville should be aware of as we move forward with its economic development efforts.

The bottom line with these regional initiatives is that the City needs to be directly involved within these organizations; meaning financial support as well as the involvement of staff and policy makers with these organizations.

341 **STAFF RECOMMENDATION**

342 The City Council should review and discuss the informaton brought forward and give staff direction on
343 how to proceed.

344 **REQUESTED COUNCIL ACTION**

345 Review and discuss information contained in this report and provide direction to Staff for next steps.

346

Prepared by: Patrick Trudgeon, Community Development Director (651) 792-7071

Attachments:

- A. Long Range Planning Meeting Outline
- B. 2030 Comprehensive Plan
- C. Imagine Roseville 2025
- D. RHRA Strategic Plan
- E. 2009 Housing Needs Analysis – Executive Summary
- F. 2010 Census Community Demographics Data
- G. 2010 Census Community Housing Data
- H. Roseville Business Information by NAICS Code
- I. Information regarding future trends in development
- J. Additional Housing Development
- K. Information on Economic Development Policy Boards
- L. MSP Regional Business Plan – Executive Summary

Long Range Planning Meeting Outline (Draft)

I. Current Situation (20-30 minutes)

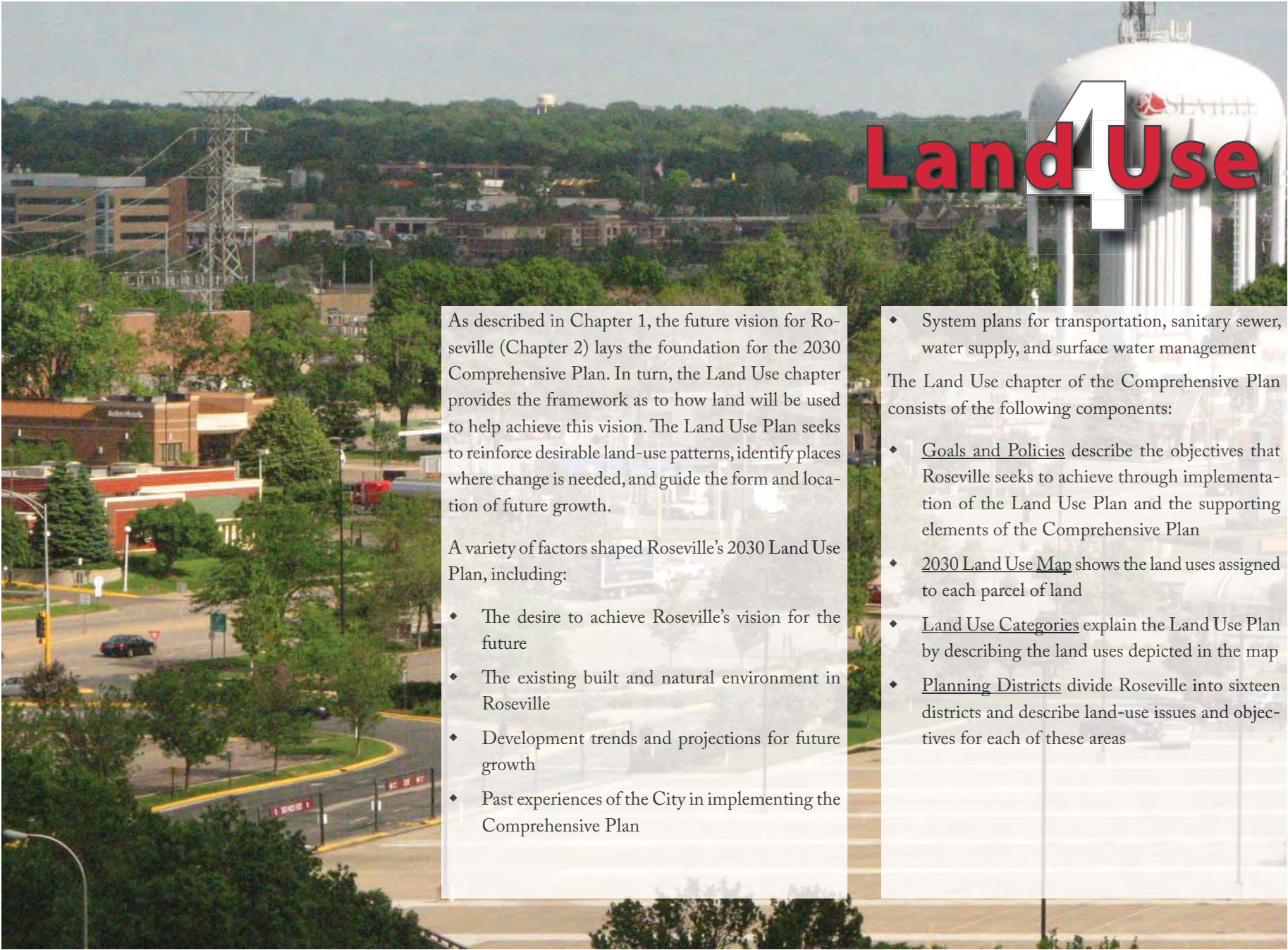
- a. Tax Capacity
 - i. What is it now?
 - ii. What has it historically been? (Trends compared to inflation, wage indices, etc.?)
 - iii. What influences the tax capacity?
 - 1. Have there been City policy-related links to changes in the tax capacity?
 - 2. Is it all just a factor of the property market?
- b. Housing
 - i. Mix in Roseville – what do we have?
 - ii. Market analysis – what do we have “too much” of, and what do we have “too little” of? (Based on market – not necessarily policy)
- c. Business
 - i. Mix in Roseville – what do we have?
 - ii. Market analysis – do we know what we have relative to what is “in demand?” (If so, what?)
- d. Guiding policies and procedures
 - i. Review of IR2025, Comp Plan, TIF policy, etc.
 - ii. Existing public engagement in planning

II. What do we want? (up to 1.5 hours)

- a. How much impact can City policy have on tax capacity?
- b. Housing
 - i. Do we want to target specific types? (If so, what types?)
- c. Businesses
 - i. Do we want to target specific types? (If so, what types?)
- d. Guiding policies
 - i. What current policies already point us toward what we want?
 - ii. What policies need to be changed or added?

III. How do we get there? (up to 1.5 hours)

- a. Do we want staff to focus more on promoting development and recruiting developments?
 - i. If so, what are the implications in terms of budget, staffing, etc.?
 - ii. Is the fee-supported Community Development funding model most appropriate for the department?
- b. How do we incent the outcomes that we seek?
 - i. What tools are currently available that we are not using?
 - ii. What other tools might we want to investigate?
 - 1. Zoning changes?
 - 2. Other policy direction?
- c. How do we build public engagement into the process of making policy changes or additions?
- d. How do we build public engagement into other aspects of what we do?
 - i. Is an Economic Development Commission a tool that would help?
 - 1. What is an EDC?
 - 2. What can they or can't they do?
 - 3. What would we want them to do, if we think one would be helpful?
 - ii. Other means for public engagement? (Current Civic Engagement task force input?)



Land 4 Use

As described in Chapter 1, the future vision for Roseville (Chapter 2) lays the foundation for the 2030 Comprehensive Plan. In turn, the Land Use chapter provides the framework as to how land will be used to help achieve this vision. The Land Use Plan seeks to reinforce desirable land-use patterns, identify places where change is needed, and guide the form and location of future growth.

A variety of factors shaped Roseville's 2030 Land Use Plan, including:

- ♦ The desire to achieve Roseville's vision for the future
- ♦ The existing built and natural environment in Roseville
- ♦ Development trends and projections for future growth
- ♦ Past experiences of the City in implementing the Comprehensive Plan

- ♦ System plans for transportation, sanitary sewer, water supply, and surface water management

The Land Use chapter of the Comprehensive Plan consists of the following components:

- ♦ Goals and Policies describe the objectives that Roseville seeks to achieve through implementation of the Land Use Plan and the supporting elements of the Comprehensive Plan
- ♦ 2030 Land Use Map shows the land uses assigned to each parcel of land
- ♦ Land Use Categories explain the Land Use Plan by describing the land uses depicted in the map
- ♦ Planning Districts divide Roseville into sixteen districts and describe land-use issues and objectives for each of these areas

Goals and Policies

The plans for land use in the City of Roseville are guided by the following goals and policies.

General Land Use Goals and Policies

Goal 1: Maintain and improve Roseville as an attractive place to live, work, and play by promoting sustainable land-use patterns, land-use changes, and new developments that contribute to the preservation and enhancement of the community's vitality and sense of identity.

Policy 1.1: Promote and provide for informed and meaningful citizen participation in planning and review processes.

Policy 1.2: Ensure that the City's official controls are maintained to be consistent with the 2030 Land Use Plan.

Policy 1.3: Ensure high-quality design, innovation, sustainability, and aesthetic appeal in private and public development and redevelopment, with emphasis on efficient site access, appropriately sized parking areas, and overall beautification through the adoption and utilization of year-round landscaping and site design standards, guidelines, principles, and other criteria.

Policy 1.4: Maintain orderly transitions between different land uses in accord with the general land-use guidance of the Comprehensive Plan by establishing or strengthening development design standards.

Policy 1.5: Promote well-planned and coordinated development.

Policy 1.6: Encourage improvements to the connectivity and walkability between and within the community's neighborhoods, gathering places and commercial areas through new development, redevelopment, and infrastructure projects.

Policy 1.7: Create a higher aesthetic level for the community through use of redevelopment and infrastructure improvements to reduce or eliminate visual pollutants such as overhead power, cable, and telephone lines, traffic controllers, junction boxes, and inappropriate signage.

Policy 1.8: Reduce land consumption for surface parking by encouraging construction of multilevel and underground parking facilities, shared parking facilities, and other strategies that minimize surface parking areas while providing adequate off-street parking.

Policy 1.9: Encourage and support new development, redevelopment, and infrastructure improvements that incorporate and protect alternative energy sources, such as solar access, geothermal, wind, and biomass.

Policy 1.10: Promote and support the provision of a citywide technology infrastructure that is accessible to both the public and private sectors.

Policy 1.11: Establish and maintain cooperative working relationships with other governmental bodies for mutual benefit in planning land use.

Policy 1.12: Consider opportunities for acquisition of institutional property proposed for conversion to private use and private property for sale that fills a need for parks, open space, or trail corridors.

Goal 2: Maintain and improve the mix of residential, commercial, employment, parks, and civic land uses throughout the community to promote a balanced tax base and to anticipate long-term economic and social changes.

Policy 2.1: Review the Land Use Plan regularly to ensure its usefulness as a practical guide to current and future development. Whenever practicable, coordinate the Plan with the plans of neighboring communities, the county, school districts, and the most current Metropolitan Council system plans.

Policy 2.2: Promote and support transit-oriented development and redevelopment near existing and future transit corridors.

Policy 2.3: Encourage a broad mix of commercial businesses within the community to diversify and strengthen the tax base and employment opportunities.

Goal 3: Identify underutilized, deteriorated, or blighted properties and guide them toward revitalization, reinvestment, or redevelopment consistent with community goals and good planning and development principles.

Policy 3.1: Support the use of master plans for small redevelopment areas.

Policy 3.2: Promote redevelopment that reduces blight, expands the tax base, enhances the mix of land uses in the community, and achieves other community objectives.

Policy 3.3: Apply strategies to effectively enforce City codes related to the maintenance of buildings and property.

Goal 4: Protect, improve, and expand the community's natural amenities and environmental quality.

Policy 4.1: Promote the use of energy-saving and sustainable design practices during all phases of development including land uses, site design, technologies, buildings, and construction techniques.

Policy 4.2: Seek to use environmental best practices for further protection, maintenance, and enhancement of natural ecological systems including lakes, lakeshore, wetlands, natural and man-made storm water ponding areas, aquifers, and drainage areas.

Policy 4.3: Promote preservation, replacement, and addition of trees within the community.

Policy 4.4: Existing and future development of business and industry, shopping, transportation, housing, entertainment, leisure, and recreation opportunities shall be in harmony with the commitment Roseville has made to its environment and quality of life, without compromising the ability of future generations to meet their own needs.

Goal 5: Create meaningful opportunities for community and neighborhood engagement in land-use decisions.

Policy 5.1: Utilize traditional and innovative ways to notify the public, the community, and neighborhoods about upcoming land-use decisions as early as possible in the review process.

Policy 5.2: Require meetings between the land-use applicant and affected persons and/or neighborhoods for changes in land-use designations and projects that have significant impacts, prior to submittal of the request to the City.

Policy 5.3: Provide for and promote opportunities for informed citizen participation at all levels in the planning and review processes at both the neighborhood and community level.

Policy 5.4: Ensure adequate and diverse representation of the appropriate stakeholders in land-use studies and advisory bodies.

Residential Area Goals and Policies

Goal 6: Preserve and enhance the residential character and livability of existing neighborhoods and ensure that adjacent uses are compatible with existing neighborhoods.

Policy 6.1: Promote maintenance and reinvestment in existing residential buildings and properties, residential amenities, and infrastructure to enhance the long-term desirability of existing neighborhoods and to maintain and improve property values.

Policy 6.2: Where higher intensity uses are adjacent to existing residential neighborhoods, create effective land use buffers and physical screening.

Goal 7: Achieve a broad and flexible range of housing choices within the community to provide sufficient alternatives to meet the changing housing needs of current and future residents throughout all stages of life.

Policy 7.1: Promote flexible development standards for new residential developments to allow innovative development patterns and more efficient densities that protect and enhance the character, stability, and vitality of residential neighborhoods.

Policy 7.2: Encourage high-quality, mixed residential developments that achieve the community's goals, policies, and performance standards, encourage parks and open space, and use high-quality site design features and building materials.

Policy 7.3: Consider increased densities in new residential developments to reduce housing costs, improve affordability, and attract transit-oriented development.

Policy 7.4: Promote increased housing options within the community that enable more people to live closer to community services and amenities such as commercial areas, parks, and trails.

Policy 7.5: Consider the conversion of underutilized commercial development into housing or mixed-use development.

Goal 8: Promote a sense of community by encouraging neighborhood identity efforts within the community.

Policy 8.1: Seek opportunities to plan, design, and develop inter- and intra-generational, multipurpose neighborhood gathering places.

Policy 8.2: Where feasible, provide or improve connections between residential areas and neighborhood amenities such as parks, trails, and neighborhood business areas.

Commercial Area Goals and Policies

Goal 9: Provide attractive, inviting, high-quality retail shopping and service areas that are conveniently and safely accessible by multiple travel modes including transit, walking, and bicycling.

Policy 9.1: Encourage commercial areas to make efficient use of land, provide for safe vehicular and pedestrian movements, provide adequate parking areas, provide appropriate site landscaping, and create quality and enduring aesthetic character.

Policy 9.2: Promote commercial development that is accessible by transit, automobile, walking, and bicycle.

Policy 9.3: Seek to make on-site transit stops part of commercial development and redevelopment.

Goal 10: Promote an appropriate mix of commercial development types within the community.

Policy 10.1: Use the Comprehensive Plan to guide new commercial development to locations appropriate for its scale and use.

Policy 10.2: Emphasize the development of commercial uses that meet the needs of existing and future Roseville residents.

Policy 10.3: Support neighborhood-scale commercial areas that provide convenient access to goods and services at appropriate locations within the community.

Employment Area Goals and Policies

Goal 11: Achieve a healthy balance between commercial and employment land uses to maintain a sound and diversified economic base and living-wage jobs.

Policy 11.1: Promote and support the redevelopment of physically and economically obsolete or underutilized property.

Policy 11.2: Restrict and control open storage uses in commercial and industrial areas.

Policy 11.3: Encourage the development of multistory office and light-industrial uses to use land efficiently, expand the property tax base, and create jobs.

Policy 11.4: Use official controls to ensure all office, industrial, and business park developments consist of high-quality design, efficient parking strategies, and appropriate site landscaping.

Policy 11.5: Ensure the provision of adequate parking facilities for employment uses and encourage the use of shared, multilevel, and/or underground parking structures to reduce excessive use of land area for parking.

Goal 12: Minimize the potentially negative impacts of high-intensity employment uses.

Policy 12.1: Direct the location and development of businesses generating significant large truck traffic to areas with appropriate infrastructure.

Policy 12.2: Encourage improvements that reduce nuisance characteristics of high-intensity employment uses, especially near residential uses.

Mixed-Use Area Goals and Policies

Goal 13: Improve the community's mix of land uses by encouraging mixed medium- and high-density residential uses with high-quality commercial and employment uses in designated areas.

Policy 13.1: Facilitate the improvement, environmental remediation, and redevelopment of underutilized, heavy-industrial land and trucking facilities in designated locations into a compatible mixture of residential and employment uses.

Policy 13.2: Develop and utilize master plans, as official controls, for redevelopment areas in order to achieve an appropriate mixture of uses in the mixed-use areas designated on the 2030 Future Land Use Map.

Goal 14: Promote and support the development of mixed-use areas that have a rich mix of related and mutually reinforcing uses within walking distance of each other.

Policy 14.1: Encourage a mix of two or more uses within each development project either within the same building or horizontally on the site.

Policy 14.2: Use official controls to ensure all mixed-use development is cohesive, compact, and pedestrian-oriented, consisting of high-quality design, efficient parking strategies, and appropriate site landscaping.

Policy 14.3: Promote and support the provision of a robust system of public spaces within mixed-use areas such as parks, plazas, pathways, streets, and civic uses to encourage community gathering and connections.

Policy 14.4: Discourage piecemeal development that does not achieve the goals and policies for mixed-use areas.



Housing and Neighborhoods 6

Housing and Neighborhoods is the primary chapter of the Comprehensive Plan that guides future development and improvements to the City's housing and neighborhoods. This chapter contains the following elements:

- ♦ Introduction
- ♦ Goals and Policies
- ♦ Housing Age and Tenure
- ♦ Housing Types and Trends
- ♦ Future New Housing Needs, Potential Sites, and Unit Projections
- ♦ Housing Programs and Agencies

Introduction

Housing is a basic human need and an essential component of the quality of life in a community. Maintaining diverse, safe, and affordable housing is one of the most critical matters facing the city of Roseville over the next twenty years. The availability of a variety of housing types, styles, and price ranges, which allows residents to move through the life-cycle housing chain, is a key factor in maintaining a community's ability to thrive well into the future. Roseville has had numerous conversations regarding the type of housing that should be developed in order to continue to make the community a desirable place to live.

Diverse, affordable, and high-quality housing and neighborhoods are critical components in defining Roseville, maintaining a healthy tax base, and attracting and retaining residents and businesses. Neighborhoods are the building blocks of the larger community, and many people identify with the social and physical

aspects of their neighborhood. Because of the shared community connections within neighborhoods, they often foster grass-roots civic discourse. Healthy neighborhoods bring vitality and promote investment in the larger community, providing a firm foundation to plan for Roseville's future.

Goals and Policies

The following goals and policies are established to guide future development and decision making relating to housing and neighborhoods in the city:

Goal 1: Provide a wide variety of housing options in order to retain and attract a diverse mix of people and family types with varying economic statuses, ages, and abilities.

Policy 1.1: Promote the development of housing stock that is appealing to persons of varying economic means.

Policy 1.2: Regularly review official controls to ensure opportunities for development of new housing stock, enhancement of existing housing stock, and ability to provide a diversity of housing choices.

Policy 1.3: Encourage the development of market-rate, intergenerational rental housing.

Policy 1.4: Partner with the Roseville Housing and Redevelopment Authority (HRA) to provide programs that encourage a range of housing choices for all residents in Roseville.

Policy 1.5: Partner with regional, state, and federal agencies, other cities/HRAs, nonprofit groups, and private-sector developers to provide high-quality, af-

fordable housing to accommodate the City's share of regional affordable-housing needs.

Policy 1.6: Integrate housing plans and policies with other City planning initiatives.

Goal 2: Maintain and enhance Roseville as a community with strong, desirable, and livable neighborhoods.

Policy 2.1: Promote and maintain neighborhoods through official controls supporting design elements that create safer streets, facilitate social interaction between neighbors, and enhance neighborhood connectivity, such as sidewalks or pathways, streetscaping, traffic-calming strategies, and open or green space.

Policy 2.2: Provide programs for rehabilitating and upgrading existing housing stock.

Policy 2.3: Support housing renovation, redevelopment, and/or infill projects that complement existing neighborhood character and improve neighborhood desirability and longevity.

Policy 2.4: Maintain and encourage a mix of housing types in each neighborhood based on available amenities, transportation resources, and adjacent land uses.

Policy 2.5: Encourage the integration of affordable housing in new and existing neighborhoods.

Policy 2.6: Prevent neighborhood decline by supporting ongoing code-compliance inspections and neighborhood reinvestment strategies.

Policy 2.7: Encourage communication channels between residential and commercial property owners/managers to resolve potential neighborhood issues.

Policy 2.8: Identify and encourage the preservation of historic homes and neighborhoods.

Goal 3: Encourage the development of neighborhood identities that build a sense of community and foster neighborhood interaction, as appropriate.

Policy 3.1: Foster the creation of individual neighborhood identities through the promotion of each neighborhood's unique attributes and amenities.

Policy 3.2: Assist residents in developing and maintaining neighborhood organizations and forums.

Policy 3.3: Create two-way paths of communication between the City and neighborhood organizations regarding overall citywide information and specific issues of concern and interest to individual neighborhoods.

Policy 3.4: Encourage neighborhood-based planning processes that rely heavily on resident participation.

Policy 3.5: Consider involvement of neighborhood residents in further development of area plans for the 16 planning districts (Land Use Chapter 4) within the framework of the Roseville 2025 Vision and the Comprehensive Plan.

Policy 3.6: Partner with neighborhood organizations to provide forums for residents to participate in the achievement of the housing and neighborhood goals.

Goal 4: Integrate environmental stewardship practices into the housing stock and neighborhoods.

Policy 4.1: Support official controls and programs that incorporate state-of-the-art technology for new construction or rehabilitation of existing homes that promotes innovative and sustainable building methods.

Policy 4.2: Encourage the use of high-quality, durable, and energy-efficient building materials and home products in renovations of existing and construction of new housing to promote decreased energy and land consumption, resource efficiency, indoor environmental quality, and water conservation, and to lessen site, neighborhood, and community impacts.

Policy 4.3: Encourage third-party certification, such as Leaders in Energy, Environmental Design (LEED), MNGreenstar, and EnergyStar, of “green” building practices for new and renovated housing units and developments.

Policy 4.4: Create ongoing resources to educate the community about “green” renovation and healthy building techniques.

Policy 4.5: Encourage the use of low-impact landscaping, such as no-mow yards, native landscaping, and rain gardens, to reduce the consumption of natural resources in yard maintenance.

Policy 4.6: Encourage housing development on sites that have access to multiple modes of transportation, including transit, biking, walking, and to sites that efficiently utilize land in a sustainable manner.

Goal 5: Continue support of housing and neighborhood programming provided by the HRA that address community needs.

Policy 5.1: Work in partnership with the HRA to identify housing issues, provide resources for housing programs, and educate Roseville residents on housing-related topics.

Policy 5.2: Coordinate with the HRA on implementation of housing-related activities identified within the Comprehensive Plan.

Housing Age and Tenure

Roseville experienced a significant housing boom between the 1940s and 1970s with 83% of all owner-occupied units and 74% of all rental units being constructed during this period (see Table 6.1). This rapid development of housing over a relatively short time period has resulted in housing stock and neighborhoods that are reaching the age when they will concurrently require significant investment.

The ratio of owner-occupied housing to rental housing has remained consistent over the last two decades. According to the 1990 and 2000 U.S. Censuses, approximately two-thirds of the housing stock is owner-occupied and one-third are rental units (see Table 6.2). This balance continued through 2007 based on the number and type of new-construction building permits issued by the City.

In the last several years, the community expressed concern regarding conversion of owner-occupied, single-family homes to rental housing. The Census data shows a consistent number of single-family rentals over time, with 218 units in 1990 and 206 units in 2000. Anecdotal information has suggested that the rate of conversion of older single-family homes from owner occupancy to rental has increased. The City will continue to monitor housing tenure trends over time.

Housing Costs and Affordability

The U.S. Department of Housing and Urban Development defines housing affordability as requiring no more than 30% of household income for housing costs. According to Census 2000, the owners of 86% of Roseville’s single-family, owner-occupied households paid less than 30% of their household incomes toward

Economic Development and Redevelopment

Introduction

Economic development and redevelopment are not required contents for the Comprehensive Plan. These aspects of community development are, however, critically important for the future of Roseville. Through this Comprehensive Plan, the City continues to place strong emphasis on the enhanced quality of life for its residents and businesses by promoting the creation of living-wage jobs, expansion of the property-tax base, prevention of blight, and enhancement of community image.

The Economic Development and Redevelopment chapter of the Comprehensive Plan contains the following components:

- ◆ Goals and Policies
- ◆ Implementation Strategies
 - Opportunity Areas
 - Facilitating Redevelopment
 - Tools for Public Actions
 - Keys to Implementation

The Economic Development and Redevelopment chapter works in conjunction with other chapters of the Comprehensive Plan:

- ◆ Land Use seeks to establish and maintain areas that enable Roseville to attract and retain high-quality businesses.
- ◆ Transportation creates and maintains a street system that makes Roseville a viable business environment. The transportation system provides the connections between businesses, employees, customers and the market.
- ◆ Utilities provide the wastewater treatment and water-supply systems required to operate a wide range of businesses.
- ◆ Housing and Neighborhoods help to ensure that Roseville has a suitable supply of housing to attract people that become the customers and employees of local businesses.

In a perfect world, the Comprehensive Plan would not include a separate economic development and redevelopment chapter, as the development needs of the

community would be met through the combination of market forces, land-use planning, and other City land-use controls. However, in reality, this approach may leave certain development needs and community objectives unmet. The purpose of the Economic Development and Redevelopment Chapter of the Comprehensive Plan is to identify gaps and reinforce policies in the other chapters of the Comprehensive Plan and provide a foundation for local decision making to guide economic development and redevelopment efforts in Roseville.

Goals and Policies

The following goals and policies guide City actions related to economic development and redevelopment.

Goal 1: Foster economic development and redevelopment in order to achieve Roseville's vision, create sustainable development, and anticipate long-term economic and social changes.

Policy 1.1: Use planning studies to evaluate options and to establish plans for reinvestment, revitalization, and redevelopment of key areas and corridors.

Policy 1.2: Ensure that local controls allow for contemporary retail, office, and industrial uses that are part of the community vision.

Policy 1.3: Encourage an open dialogue between project proposers, the surrounding neighborhood, and the broader community through individual and neighborhood meetings and use of technology.

Policy 1.4: Enhance communication of the community's objectives for promoting business development to enhance the quality of life in Roseville.

Policy 1.5: Where appropriate, use public-private partnerships to achieve the community's economic development and redevelopment goals.

Goal 2: Enhance opportunities for business expansion and development that maintains a diverse revenue base in Roseville.

Policy 2.1: Foster strong relationships with existing and prospective businesses to understand their needs and to maximize opportunities for business retention, growth, and development.

Policy 2.2: Support existing businesses and welcome new businesses to serve Roseville's diverse population and/or provide attractive employment options that encourage people to live within the community.

Policy 2.3: Improve the awareness of community assets and opportunities that Roseville offers prospective businesses through ongoing participation in regional economic development organizations and coordination with county and regional agencies.

Policy 2.4: Encourage locally owned and/or small businesses to locate or expand in Roseville.

Goal 3: Establish an infrastructure system to meet the needs of current businesses and facilitate future growth.

Policy 3.1: Work with local businesses and the Metropolitan Council to improve transit service to, from, and within Roseville.

Policy 3.2: Work with Ramsey County, MnDOT, and the Metropolitan Council to promote, coordinate, and facilitate regional improvements to the roadway system, as well as to communicate planned roadway

improvements to the general public in advance of construction.

Policy 3.3: Ensure that adequate public utilities (e.g., sewer and water) will be available to serve future commercial and industrial development.

Policy 3.4 Encourage and promote the development of advanced, state-of-the-art telecommunication and information technology infrastructure to and within Roseville.

Policy 3.5: Work with service providers to ensure adequate supplies and reliable distribution systems for electricity and natural gas.

Goal 4: Encourage reinvestment, revitalization, and redevelopment of retail, office, and industrial properties to maintain a stable tax base, provide new living-wage job opportunities, and increase the aesthetic appeal of the city.

Policy 4.1: Encourage and facilitate infill commercial, industrial, and office development on vacant commercial parcels to ensure maximum efficiency of land use.

Policy 4.2: Encourage and facilitate redevelopment of or distressed commercial, industrial, and retail properties into viable developments by working with property owners and interested developers.

Policy 4.3: Foster environmental remediation of polluted property through partnerships with property owners and funding agencies.

Policy 4.4: Use inspections and code enforcement to promote the maintenance of property, identify ongoing issues, and prevent the spread of potential blighting factors.

Policy 4.5: Continue to give attention to creating and maintaining aesthetic quality in all neighborhoods and business districts.

Goal 5: Make effective use of available financial resources to facilitate community economic development and redevelopment objectives.

Policy 5.1: Establish a strong working knowledge of the type and purpose of available municipal, regional, state, and federal development incentive programs.

Policy 5.2: Review new and innovative economic development incentives for application in Roseville.

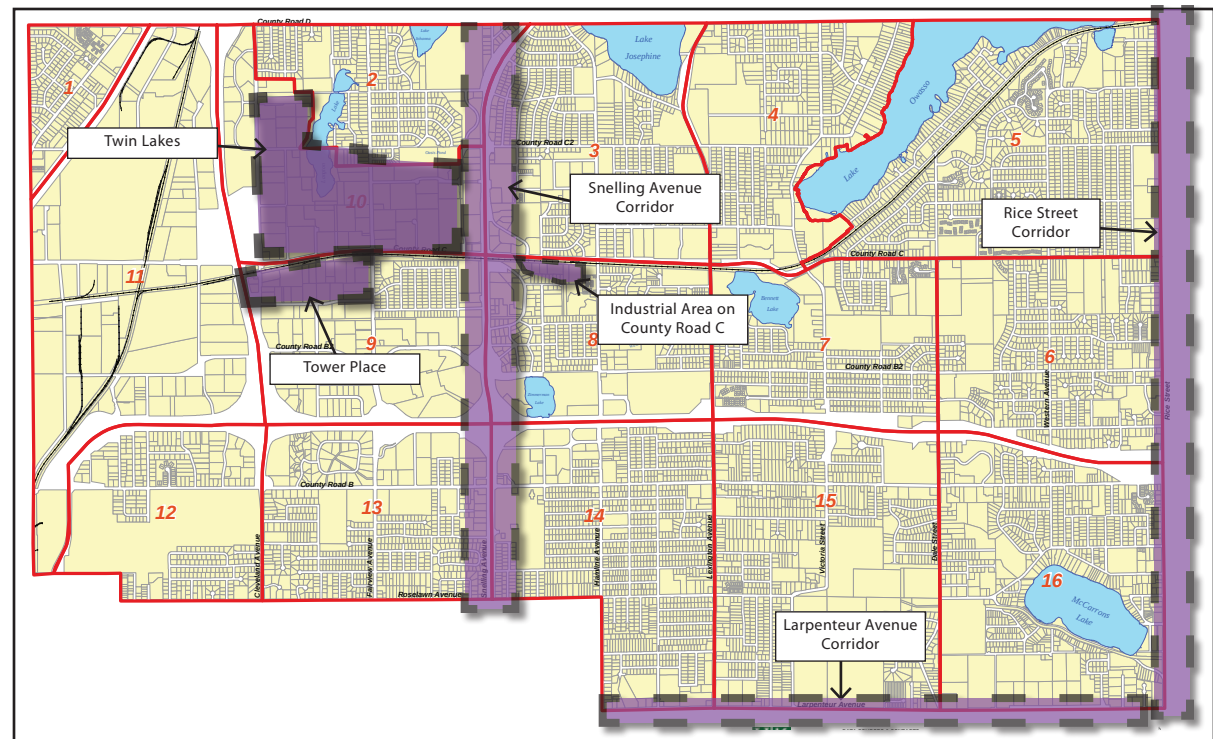
Policy 5.3: Establish guidelines for the use of financial incentives to promote the most effective use of limited resources, including tax revenues.

Goal 6: Integrate environmental stewardship practices into commercial development.

Policy 6.1: Foster transit-supportive development along existing and planned transit corridors.

Policy 6.2: Support official controls and programs that incorporate state-of-the-art technology for new construction or rehabilitation of existing commercial buildings that promotes innovative and sustainable building methods.

Policy 6.3: Encourage the use of high-quality, durable, and energy-efficient building materials and construction products in renovations of existing buildings and construction of new buildings to promote decreased energy and land consumption, resource efficiency, indoor environmental quality, and water conservation, and to lessen site and community impacts.



Opportunity Areas

Figure 7.1

Policy 6.4: Encourage third-party certification (e.g., LEED) of “green” building practices for new and renovated commercial structures.

Policy 6.5: Create ongoing resources to educate the development community about “green” renovation and “healthy building” construction techniques.

Policy 6.6: Encourage the use of low-impact and low-maintenance landscaping within commercial development to decrease natural resources consumed by landscape maintenance.

Policy 6.7: Encourage the reduction of impervious surfaces, including consideration of decreasing parking requirements in return for additional landscaping and pervious surfaces.

Implementation Strategies

The Economic Development and Redevelopment Chapter of the Comprehensive Plan creates a framework for public action. Many of the detailed plans and programs used to address economic development and redevelopment needs lie outside the Comprehensive Plan. This approach allows more flexibility in responding to changing market forces and development needs and opportunities.

Opportunity Areas

The Land Use chapter identifies a series of areas with particular opportunity for future redevelopment. A key to implementing the Comprehensive Plan will be understanding the development opportunities in these areas in order to create a plan for desired public improvements and to encourage the desired private investment. The map in Figure 7.1 highlights the location of these areas. The remainder of this section briefly describes the nature of the redevelopment opportunity in each area.

Rice Street Corridor

The Rice Street Corridor forms the eastern boundary of Roseville. The corridor is a complex setting with a wide range of land uses located in Roseville, Little Canada and Maplewood. It creates both the opportunity and the need for planned and coordinated redevelopment. The level of study conducted with the 2008 update did not allow for the planning needed to explore future land-use options in conjunction with the adjacent cities. The Rice Street Corridor is part of Planning Districts 5, 6 and 16 in the Land Use chapter.

Snelling Avenue Corridor

The Snelling Avenue Corridor is important to both transportation and development in Roseville. Snelling Avenue is the primary north/south corridor through Roseville. Only Interstate 35 and Highway 36 carry more traffic than Snelling Avenue. This corridor is a critical connection between Roseville and the region. The character of the roadway and the volume of traffic also physically divide the community. In the Land Use chapter, Snelling Avenue forms an edge for seven Planning Districts (2, 3, 8, 9, 10, 13 and 14). It is important to examine this corridor, including adjacent parcels, as a cohesive area and plan for future redevelopment possibilities, transit improvements, pedestrian connections, and landscaping improvements along this major entrance into Roseville.

Larpenteur Avenue Corridor

Another important corridor is Larpenteur Avenue from Hamline Avenue to Rice Street. The area west of Lexington Avenue has benefited from both public (streetscape) improvements and new private investment. The Comprehensive Plan seeks to extend these redevelopment initiatives along the corridor to the east. Additional planning will be needed to design and facilitate these changes.

Twin Lakes

The Twin Lakes area (see Planning District 10) has been a redevelopment focus of Roseville for many years. It is an excellent illustration of the long-term nature of redevelopment. Twin Lakes continues to be a redevelopment priority for Roseville. The Comprehensive Plan seeks to build on the foundation that has been laid by prior planning and environmental studies.

Tower Place

The Tower Place area lies in the northwest part of Planning District 9. The area continues to evolve as an employment center with office/warehouse and office developments. New opportunities may exist in the future if transit services are provided on the adjacent railroad corridor.

Isolated Industrial Area on County Road C

The Land Use chapter encourages the redevelopment of the existing industrial area south of County Road C and east of Snelling Avenue. The industrial uses exist on smaller parcels with constrained access in an area that is predominantly residential. Public involvement will be needed to facilitate this redevelopment and to provide needed access improvements.

Facilitating Redevelopment

The Comprehensive Plan seeks to create a place where land-use plans, policies, and controls work together with private investment to properly maintain all properties in Roseville. It is recognized that this approach may not succeed in all locations, as despite the best plans and intentions, properties may become physically deteriorated and/or economically unviable. In such places, the City may need to facilitate redevelopment and prevent the spread of blight and disinvestment. City involvement may include:

- ♦ Acquisition of land
- ♦ Preparation of sites for development
- ♦ Remediation of polluted land
- ♦ Construction or reconstruction of public improvements
- ♦ Provision of adequate parking

- ♦ Removal of other physical and economic barriers to achieve community objectives

These actions may require the use of a variety of financial tools available to the City.

Tools for Public Actions

In order to facilitate redevelopment, the State has provided cities with several tools to assist in financing improvements. These include:

- ♦ Tax Increment Financing
- ♦ Special Service District
- ♦ Tax Abatement
- ♦ Special Assessments
- ♦ Housing Improvement Area
- ♦ General Property Taxes
- ♦ Commercial Rehabilitation Loans and Grants

Keys to Implementation

The experience of Roseville shows that several factors are important to achieving goals and policies for economic development and redevelopment.

Patience: Many development goals cannot be met overnight. The time frame for implementation reflects its evolutionary nature; it looks forward over a period of years. The desired change often requires the patience to wait for the right things to happen, rather than making changes simply to be seen as doing something.

Commitment: Commitment to the Comprehensive Plan and patience go hand-in-hand. This Plan does not simply seek to attract development to Roseville; it also seeks to move Roseville toward a vision for

the future. There is a difference. Commitment to the Comprehensive Plan means the willingness to actively promote public and private investments that achieve its goals, and to deter developments that do not fit. Not all of these decisions will be easy.

Public-Private Partnerships: These goals and policies require a continuation and strengthening of the public-private partnerships found in Roseville for many years. City government, neighborhoods, and businesses must actively collaborate to achieve the vision for the community.

Financial Reality: Achieving these goals and policies requires the careful investment of public funds, but the private side of the financial equation must not be overlooked. The Comprehensive Plan seeks to balance the investment in public initiatives with the creation of a financial environment that sustains businesses, provides employment, enhances the tax base, and results in sustainable development benefiting the community.

Strategic Investments: If financial support for the Comprehensive Plan was unlimited, the need for strategic decisions would be less important. With limited funds, though, every expenditure is crucial. Every investment must be evaluated for its impact on achieving the vision for the future of Roseville.

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Final Report

January 2007



Introduction and Process

For Imagine Roseville 2025 to be successful, the commitment from everyone involved was that the process would be carefully and flexibly designed, inclusive, and authentic, and that the results would be substantive, meaningful, and useful in guiding future decisions for Roseville.

Although only time will tell whether the impact is as powerful as we now all hope, we are confident that the process we followed met community and professional standards. Below is information about our general approach, followed by an overview of what we did. Information on content, participants, and results is presented in the relevant sections of this report.

The initial thrust for Imagine Roseville 2025 came from the 2006 City Council, and the desire to take a thoughtful look at Roseville's future was driven by clarity on their parts that one of their key responsibilities was to place short-term demands within a longer-term context. Staff fully supported this effort, as did our key partners, the HRA and the Roseville Area School District, and influential community leaders.

To launch the work, the Council outlined some key process expectations in an RFP for a visioning consultant, and solicited applications for and made appointments to a community-based Steering Committee to provide guidance. They then hired Anne Carroll of Carroll, Franck & Associates in St. Paul as the consultant, linked her to the Steering Committee and lead staff, and kicked off the process in May 2006 with a December deadline.

The process was deeply woven into the community, completely transparent and public, and based on a comprehensive public participation design that evolved over time under the guidance of the Steering Committee, staff, and Council to ensure broad and deep representation across the community. After their appointment, the Steering Committee in turn created a process to receive applications and select Subcommittee members for various topic areas. The Subcommittees received enormous amounts of public input as well as background information, from which they formulated draft recommendations. The Steering Committee remained actively involved in Subcommittee work, and then worked jointly with Subcommittee members and their recommendations to refine the goals and strategies, and finally to create a vision.

The Council was updated regularly and directly engaged in the work as it progressed, and received the final recommendations in December. Below is the process outline; additional detail, content, and results are included in the other sections of this report.

Major public, group events:

- **Brainstorming Sessions:** We facilitated 10 major sessions engaging both the general public as well as underrepresented groups. Several hundred people participated. The purpose was to get a sense of topics and issues that Imagine Roseville 2025 had to consider, and to solicit Subcommittee applications. See Appendix: Brainstorming.
- **Subcommittee Listening Sessions:** Each of the six Subcommittees hosted at least two community Listening Sessions to gather more input on their specific topic area. See Appendix: Subcommittees.

- City Council/Public Updates: The Steering Committee and consultant provided the Council and public (via cable TV) with regular updates about the Imagine Roseville 2025 process, findings, activities, results, and recommendations. See all these in Appendix: Council-Public Updates.
- Open House: On December 7, 2006 the Steering Committee hosted a final Open House at City Hall for the public to review the final draft recommendations for goals, strategies, and vision, and to offer their final comments and edits. This was publicized widely and very well attended – and changes were made to the final recommendations as a result of their input. See Appendix: Draft Goals, Strategies, Tactics.

Steering Committee Meetings: These were facilitated by the consultant and generally occurred every two weeks in order to actively guide the overall process, resolve issues and concerns, and take innovative approaches to engaging the public, reaching consensus, and moving forward toward strong and constructive recommendations. Agendas and notes were posted and visitors were frequently in attendance. Steering Committee members also attended numerous Subcommittee meetings and their Listening Sessions, and participated in several collaborative workshops. See Appendix: Steering Committee as well as separate documentation of all agendas and notes.

Subcommittee Meetings: The six Subcommittees arranged and managed their own meetings, usually every two weeks, to work through all the issues offered by the public as well as background information. They frequently invited guests to speak at their meetings and each also hosted at least two Listening Sessions to gather additional insights from the public. They met mid-July through early November, and also participated in a number of training and other workshops. See Appendix: Subcommittees.

Workshops: The consultant facilitated a number of workshops over the course of Imagine Roseville 2025 to provide participants with the structured time to pursue issues in sufficient depth. These included a kick-off workshop for Subcommittee members with the Steering Committee; a training workshop for Subcommittee co-chairs and the Steering Committee; two major goal and strategy workshops with Subcommittee members, staff, Council, and the Steering Committee; and a visioning workshop with the Steering Committee; a workshop with the Council and Steering Committee. These are documented in their relevant sections and Appendices.

Vision Statement



In 2025, our diverse and dynamic community welcomes new neighbors and businesses, and respectfully and effectively generates high-quality solutions to evolving community needs. We work hard, volunteer actively, care about our community, and contribute to the common good. And we continually reach out to include everyone in community decision making, and support civil discourse that respects and considers all perspectives and ideas.

Our rich history provides a foundation for us to be optimistic about our future and the opportunities it brings. All families are strong, healthy, and embraced, and we serve people throughout their lives with places to live, work, learn, worship, and play. We are a great place to raise a family, run a business, age in place, and recreate, and we protect these opportunities by thoughtfully investing in infrastructure, facilities, services, and open spaces.

We take pride in our safe and well-maintained neighborhoods, housing, and businesses, and we benefit from connected neighborhoods and compact development. Our strong design standards and proactive planning create a community that is attractive, appealing, and desirable, with a healthy mix of land uses and the flexibility to respond to change.

We recognize our responsibility to act as environmental stewards and provide a regulatory framework that fosters a sustainable community. Our renowned parks and our recreational and public facilities are community centerpieces that attract people of all ages and abilities, and help us support and promote individual wellness and fitness.

We celebrate our unique position in the heart of the metropolitan area, recognize our role within the region, and actively participate in regional collaboratives. We model fiscal responsibility with a clear eye toward proactively investing in Roseville's future. Our strong and diversified tax base is kept healthy by a vibrant local business climate, and high-quality jobs provide families with economic security.

We value and invest in lifelong learning opportunities and life-cycle housing that attract a diverse mix of residents and businesses and keep our community strong. Leading-edge technology and a comprehensive and reliable transportation system support residents and businesses, and a variety of convenient, flexible, and safe transit alternatives serve all community members.

And we strive to be even more inclusive, proactive, responsible, and efficient so that Roseville remains a wonderful and welcoming community for generations to come.

Goals and Strategies

Community

Goal: Roseville is a welcoming community that appreciates differences and fosters diversity

Strategy A: Make Roseville a livable community for all

- 1) Support the vibrancy all bring to Roseville and their many contributions to the health of the city
- 2) Educate community members on diversity issues and provides means to repair damage caused by prejudice; convey a clear message that intolerance is not welcome in our community
- 3) Establish a City Help desk to provide communications within the community; make community information available in multiple languages and to people with disabilities
- 4) Make the community accessible to people with physical disabilities
- 5) Organize mentoring opportunities serving newcomers to the community; work with school districts to address needs of newcomers
- 6) Foster youth leadership and development
- 7) Honor individuals and groups who contribute to the community



Strategy B: Respect and encourage diversity

- 1) Assure civility and respect in public dialogue
- 2) Promote multicultural understanding, relationships, and communications
- 3) Promote ethnic celebrations and festivals
- 4) Encourage inter-group cooperation

Strategy C: Ensure city staff and elected and appointed officials respect and reflect diversity of city population

- 1) Recruit a diverse range of candidates for staff, elected, and appointed positions
- 2) Provide extensive and ongoing diversity and cultural awareness training to all city staff, particularly those in contact with the public
- 3) Provide basic language training for city staff, especially police, fire, and emergency medical services

Goal: Roseville is a desirable place to live, work, and play

Strategy A: Create an attractive, vibrant, and effective city with a high quality of life

- 1) Preserve and maintain community green spaces, parks, and open spaces, and improve as needed in response to changing community needs
- 2) Promote commercial and residential aesthetics and design innovations; set high standards for landscaping and design of public improvements
- 3) Use infrastructure and other redevelopment efforts to reduce or eliminate visual pollutants such as overhead power, cable, and telephone lines, traffic controllers and junction boxes, etc.
- 4) Maintain and improve infrastructure, including parks, streets, schools, city services, pathways, etc., in an environmentally friendly manner
- 5) Support businesses that serve Roseville's diverse population and provide attractive employment options that encourage people to relocate here
- 6) Collaborate to create a coordinated plan to promote Roseville's business and residential opportunities
- 7) Maintain a balance of commercial/industrial activities that anticipate long-term economic and social changes
- 8) Discourage ad hoc or piecemeal development
- 9) Encourage tree preservation and replacement; make Roseville "bloom" by encouraging decorative landscaping
- 10) Keep city clean and inviting; enforce nuisance ordinances



Strategy B: Provide excellent, effective, and efficient city services

- 1) Benchmark and routinely seek community input to evaluate and continuously improve city services
- 2) Participate in regional and intergovernmental collaborations for planning and development
- 3) Coordinate with regional partners to provide high service levels
- 4) Enforce all municipal ordinances
- 5) Invest in staff training and development to improve quality and responsiveness of city services

Strategy C: Provide regional leadership in creative and sustainable redevelopment

- 1) Set the tone for private development by having environmentally sustainable public facilities and properties
- 2) Support environmentally friendly energy options for residential, business, and governmental needs
- 3) Support redevelopment that embraces genuine public-private partnerships with

- benefits and contributions for all
- 4) Partner with redevelopers to remediate brownfields and redevelop industrial sites

Strategy D: Enhance the city's diverse business community

- 1) Actively promote Roseville in the greater metropolitan area and throughout the state and region
- 2) Encourage businesses with family-sustaining jobs
- 3) More actively support existing businesses
- 4) Welcome new businesses
- 5) Seek out and support high quality businesses that enhance tax base



Goal: Roseville has a strong and inclusive sense of community

Strategy A: Foster and support community gathering places

- 1) Plan for, develop, and maintain public and private gathering places distributed throughout the city
- 2) Promote inter- and intragenerational, multipurpose gathering places that promote a sense of community
- 3) Explore public and private partnerships to develop community gathering places
- 4) Foster collaboration between city and community-based organizations, groups, and nonprofits

Strategy B: Explore new Community Center

- 1) Assess needs and desires for new public facilities and programs, including a Community Center, through survey and other methods to identify community expectations for public facilities regarding access, amenities, programs, etc. Ensure that perspectives from traditionally underrepresented people are heard and considered.
- 2) Take into account nearby facilities and opportunities. Explore strong partnerships to better meet community needs. Consider options including pool, exercise/fitness, teen activities, technology access, performing arts, theater, eating and meeting spaces, space for local organizations, etc.
- 3) Develop and implement action plan

Strategy C: Promote and support city-sponsored and community-based events

- 1) Support more volunteer activities and opportunities
- 2) Nurture existing arts programs and consider opportunities for larger-scale arts initiatives, perhaps in connection with community gathering places; provide opportunities for the arts to bloom

Strategy D: Encourage development of neighborhood identities to build a sense of community and foster neighborhood communications, planning, and decision making

- 1) Encourage development of neighborhood groups, organizations, and forums in order

- to provide residents with a sense of belonging
- 2) Maintain neighborhood architectural integrity where possible

Goal: Roseville residents are invested in their community

Strategy A: Provide meaningful opportunities for community engagement

- 1) Value community-driven change and provide for community-based planning to occur; promote and support community-led civic involvement
- 2) Encourage community participation in local government and administration
- 3) Promote understanding and acceptance of the democratic process as a path to the common good
- 4) Increase and improve outreach methods, especially to involve and inform new/immigrant and under-represented residents in community and economic development decisions
- 5) Create and manage varied and respectful community forums; adopt and promote community norms for public discourse
- 6) Promote volunteer activities and opportunities, and neighborhood and city events including ethnic celebrations/festivals



Strategy B: Ensure that city government is civil, informative, and responsive

- 1) Adopt and promote norms and codes of conduct for civil public discourse; respect and encourage respectful discussions of differing perspectives
- 2) Promote open-mindedness on the part of its elected officials before they formulate public policy, as well as encouraging a similar attitude on the part of community members; expect City Council discussions to stay on the policy level
- 3) Ensure that city employees and elected officials respond appropriately and respectfully to resident concerns, and clearly and transparently explain all actions
- 4) Ensure the public treats city employees respectfully at public meetings
- 5) Create timely and effective communications; make community information accessible to everyone, including non-English speakers
- 6) Develop a community Help Desk; connect community members to available support services

Safety

Goal: Roseville is a safe community

Strategy A: Provide strong police, fire, and emergency medical services so neighborhood residents feel and are safe

- 1) Maintain low crime rate; routinely and objectively measure crime rate relative to comparable communities, and implement changes as necessary
- 2) Develop community relations programs to meet changing community needs and demographics
- 3) Implement proactive programs to deter crime
- 4) Support a neighborhood network to be used for emergency preparation
- 5) Provide safe trails, crosswalks, and pathways
- 6) Vigorously enforce traffic laws



Strategy B: Provide appropriate policies and funding to meet national standards for response times and services for fire, police, and emergency medical services

- 1) Provide the appropriate number and location of fire, police, and emergency medical facilities and equipment to meet community needs
- 2) Keep technology and equipment current

Housing

Roseville housing meets community needs

Strategy A: Coordinate housing plans with all other community plans

Strategy B: Ensure sufficient affordable housing

- 1) Provide funding options and loans to make existing or new housing affordable
- 2) Increase residential density to reduce costs
- 3) Link incoming families with sellers moving to smaller units

Strategy C: Implement programs to ensure safe and well-maintained properties

- 1) Vigorously enforce housing codes
- 2) Development more stringent codes for rental properties of four or fewer units
- 3) Implement housing inspections
- 4) Provide loans and other assistance to help people maintain property



Strategy D: Ensure life-cycle housing throughout that city to attract and retain a diverse mix of people, family types, economic statuses, ages, and so on

Strategy E: Fund housing programs to meet diverse and long-term needs

Strategy F: Employ flexible zoning for property redevelopment to meet broader housing goals such as density, open space, and lot size

Strategy G: Develop design guidelines to support new or renovated housing that contributes to neighborhood character, sustainability, and other community expectations

Environment

Goal: Roseville is an environmentally healthy community

Strategy A: Preserve and enhance soil, water, and urban forest resources

- 1) Protect and preserve existing lakes, wetlands, ponds, aquifers, and other natural environments and habitats
- 2) Recognize water resources and the importance of aquifer recharge; reduce stormwater runoff through regulation and education
- 3) Use best practices to maintain and develop natural resources, focusing on wetlands and groundwater quality; encourage water conservation
- 4) Protect and enhance urban forests
- 5) Collaborate with other governmental units and groups to identify and help meet environmental targets



Strategy B: Reduce negative human impacts by conserving energy and reducing pollution

- 1) Make decisions that account for human impact on the carrying capacity of the environment
- 2) Model energy conservation and encourage alternative energy; increase use of energy efficient and low impact lighting throughout the city
- 3) Reduce local energy usage by educating community members about energy conservation and its impact on the city
- 4) Improve air, water, soil, and sound quality by reducing pollution of all kinds, including from traffic, noise, runoff, and excess light and noise; enhance community awareness of environmental impacts

Parks, Open Space, Recreation, Wellness

Goal: Roseville has world-renowned parks, open space, and multigenerational recreation programs and facilities

Strategy A: Expand and maintain year-round, creative programs and facilities for all ages, abilities, and interests

- 1) Remain aware of and responsive to changes in recreational needs and trends
- 2) Keep a reasonable balance between open spaces and parks
- 3) Increase use of parks and recreation facilities
- 4) Maintain and improve trails, wetlands, and nature center(s)
- 5) Actively promote parks, recreation, open space, and trail opportunities
- 6) Protect parks and recreation assets and assure user safety



Strategy B: Provide high quality and well-maintained facilities, parks, and trails

- 1) Maintain and manage parks, recreation facilities, forests, and open spaces to the highest standards using best practices; implement a plan to retain green and open space
- 2) Leverage resources by partnering with other communities, agencies, and school districts to optimize open space, fitness and recreation programming, and facility options
- 3) Connect the park system to the community via paths and trails
- 4) Make the entire park system, including lakes and ponds, accessible to people with disabilities
- 5) Support volunteerism to encourage people to actively support parks and open spaces

Goal: Roseville supports the health and wellness of community members

Strategy A: Promote and encourage active and healthy lifestyles for all

- 1) Enhance recreational opportunities and encourage more active lifestyles to improve health
- 2) Support health education initiatives
- 3) Develop infrastructure that supports improved physical and mental health, such as high-amenity walking and biking paths within and between neighborhoods

Strategy B: Support initiatives and partnerships to improve health care quality, affordability, and access

Education

Goal: Roseville supports high quality, lifelong learning

Strategy A: Promote the benefits of lifelong learning and intergenerational education

- 1) Support age-appropriate educational opportunities
- 2) Support affordable, excellent early education options for all families

Strategy B: Provide sustainable, cutting edge, educational technology

- 1) Educate community members on what technology can provide
- 2) Create greater access to expanded curriculum offerings through technology

Strategy C: Encourage high expectations and active involvement in public education

- 1) Support family and community involvement in education
- 2) Encourage more community outreach and information sharing around education
- 3) Help create partnerships between schools and local businesses, nonprofits, and government



Infrastructure

Goal: Roseville has a comprehensive, safe, efficient, and reliable transportation system

Strategy A: Provide a road system that moves people and goods safely and efficiently

- 1) Plan and budget to reduce congestion, travel time, costs, and pollution
- 2) Support planning and funding for state, regional, and county transportation projects to ensure capacity, improve operations, improve safety, and reduce spillover to the local system
- 3) Collect and maintain data on roadway deficiencies (safety, operations, capacity), and target investments accordingly, including the top 10 intersections where the greatest number of accidents occur
- 4) Install better signage to improve safety for drivers, pedestrians, and bicyclists

Strategy B: Ensure a robust public transit system that is integral to the metropolitan system and meets long-term needs

- 1) Leverage public transit to improve access to jobs, school, retail, and other destinations within and outside of Roseville
- 2) Support light rail transit and bus rapid transit in strategic and appropriate corridors
- 3) Identify and support new transit options for people commuting through Roseville from surrounding communities
- 4) Aggressively support transit-oriented development
- 5) Expand options for transit-dependent people
- 6) Promote alternatives to single-occupancy vehicles including ride share, dial-a-ride, park and ride, car sharing, and others; work to keep Roseville as a Transit Hub with adequate park and ride facilities
- 7) Provide transit connections among retail centers and with residential areas
- 8) Promote highway and freeway redevelopment that incorporates transit options



Strategy C: Properly fund public transportation and transit systems

Strategy D: Expand, maintain, and promote a system of continuous and connected pathways that encourage walking and biking

- 1) Regularly update Pathway Master Plan to guide construction and prioritization, with particular emphasis on collector and arterial roads
- 2) Require new public and private construction projects to include pathways
- 3) Provide safe crossings (overpasses, tunnels, etc.) across busy streets to keep areas connected
- 4) Provide safe routes to schools
- 5) Connect major retail and business areas with one another and with neighboring residential areas; support enclosed walkways/bikeways connecting major shopping areas such as the Snelling/Highway 36 area
- 6) Create walkable neighborhoods that promote community cohesion, connections, and cooperation; create pathways that connect neighborhoods as well as community gathering/meeting places with each other
- 7) Work with other units of government to develop and connect trail systems



Strategy E: Proactively communicate about and promote transit and pathway options

Goal: Roseville has well-maintained, efficient, and cost-effective public infrastructure

Strategy F: Maintain and upgrade public infrastructure to meet long-term needs

- 1) Seek community input and perspectives on public infrastructure and facilities at all stages of planning and implementation
- 2) Incorporate infrastructure for communications and data services in all new roadway construction

Strategy G: Develop and implement environmentally sensitive public infrastructure planning, design, and construction

Strategy H: Provide sufficient funding for long-term infrastructure construction and operations

Roseville has technology that gives us a competitive advantage

Strategy A: Ensure that the technology infrastructure is in place to optimize public and private sector performance

- 3) Provide current and cost-effective technology and associated infrastructure for city operations and services, and public sector partnerships
- 4) Invest in a technology infrastructure that meets short-term needs and provides long-term flexibility
- 5) Provide public access to technology infrastructure
- 6) Support a citywide technology infrastructure that is accessible to the private sector
- 7) Provide clear information to the public about options, plans, and funding

Strategy B: Develop a long-term technology infrastructure plan

- 1) Regularly assess and update technology trends to identify and recommend future investments
- 2) Develop policies to provide broad technology access
- 3) Seek community and business input on technology infrastructure needs

Strategy C: Establish secure funding sources to operate, maintain, and upgrade technology infrastructure

Finance and Revenue

Goal: Roseville has a growing, diverse, and stable revenue base

Strategy A: Establish sustainable funding sources and mechanisms to pay for community needs

Strategy B: Encourage renovation and redevelopment to increase tax base

Strategy C: Consider alternative mechanisms to fund city services

- 1) Participate in regional collaborations to more efficiently fund city services
- 2) Explore options such as local sales tax, county wheelage tax, billing and fees for services, assessments, etc.
- 3) Aggressively seek grant revenues



Goal: Roseville responsibly funds programs, services, and infrastructure to meet long-term needs

Strategy A: Maintain the highest financing and budgeting standards

Strategy B: Align budget and expenditures to support programs and services for all city functions

Strategy C: Actively manage funds to provide long-term fiscal stability

- 1) Maintain adequate fund balance
- 2) Maintain good bond rating
- 3) Plan for long-term capital requirements

Strategy D: Incorporate community priorities in funding decision-making process

Strategy E: Collaborate with other governmental units to leverage and manage costs for operations, services, and capital improvements



Roseville HRA Strategic Plan 2008-2012

The mission of the Housing & Redevelopment Authority for the City of Roseville is to plan, implement, and manage housing projects and activities for citizens by providing equal opportunities for quality, decent, safe homes, and a suitable living environment; and strengthening partnerships among all levels of government, non-profit and for-profit organizations to maximize social and economic benefits.

Below are the goals and polices of the HRA strategic plan:

I. To encourage the development of a variety of housing options in price and product type to meet life cycle needs of the community as well as to retain and attract a diverse mix people and family types with varying economic statuses, ages, and ability.

- a) Provide a link between Roseville seniors seeking to move out of existing single family homes and young families seeking first time purchase options.
- b) Support, initiate, and promote alternate housing for seniors to enable them to remain a vital part of the community.
- c) Preserve existing housing and develop new housing in partnership with federal, state and regional agencies and non-profit community groups and private sector development partners.
- d) Encourage the development of market-rate intergenerational housing.
- e) Regularly review official controls to ensure opportunities for development of housing stock that provides a diversity of housing choices.
- f) Encourage the integration of affordable housing in new and existing neighborhoods.

II. To see that funding sources are identified and well managed in order to support/provide housing options/ for residents within the City of Roseville.

- a) In order to ensure that funding sources are implemented and well managed, the HRA will move aggressively to secure funding through a variety of Federal, State, County, City and non-profit, and private sources.
- b) Ensure that policies are in place regarding the use funding mechanisms that will promote the provision and improvement of housing through such tools as Housing Improvement Areas, Conduit Debt Financing, and Bonding.

III. To promote the City as a safe community with an enhanced quality of life and a sense of community and vibrant neighborhoods.

- a) Provide information regarding the importance of quality housing opportunities and diverse, close-knit neighborhoods to foster a sense of community.
- b) Increase awareness of the HRA to all levels of the community both internally and externally.
- c) Increase awareness of HRA's financial resources, housing programs and the services of the *HousingResource* Center that are available to all residents, property owners and others.
- d) Partner with police and fire departments, neighboring cities, school districts, non-profits, and consumers to foster a better overall quality of life in the City.
- e) Foster the creation of neighborhood individual neighborhood identities in partnership with new and existing neighborhood organizations that promote each neighborhood's unique attributes and amenities.

IV. To provide necessary staff support to make sure that the goals and objectives are carried out on a daily basis following well-established best management practices.

- a) The Community Development Director of the City of Roseville shall serve as the Executive Director of the Roseville HRA.
- b) The Housing Coordinator, along with necessary staff and/or consultants will implement day to day tasks for all aspects of the HRA.
- c) Actively promote education, growth, and advancement of employees, board members and community members.
- d) Quarterly Progress Reports on all funding sources, grant programs and the overall operations of the Roseville HRA will be provided to the HRA board.
- e) Annually review with the City Council the Roseville HRA's strategic Plan and budget. A new strategic plan will be developed every four years.
- f) Leverage technology to allow for the HRA to deliver its services more efficiently and effectively as well to better inform the public.

V. To develop and review Zoning and building code standards to ensure that the existing housing stock and neighborhoods are properly maintained in the City of Roseville.

- a) The HRA, in partnership with the City, maintain proactive code enforcement policies to prevent nuisance properties from negatively impacting surrounding properties.
- b) The HRA, in partnership with the City, will continue to work with Community Development staff to enhance code enforcement efforts within the Housing Maintenance Section of the City Code.
- c) The HRA, in partnership with the City, will explore further regulation, including licensing, of rental units within the City of Roseville.

VI. To develop sustainable solutions to housing through the promotion and advocacy of green building techniques and environmental stewardship practices.

- a) Develop standards for supporting green building techniques, including the use of alternative building materials and recycling of building materials (wherever feasible) in a new construction and rehabilitation.
- b) Leverage technological advances in the areas of energy and water conservation, natural drainage systems and wastewater treatment and incorporate them into the design of new and renovated housing units.
- c) Promote transit-oriented development by conducting (and funding) planning at key transit nodes.
- d) Work with local utility companies to establish and expand programs to encourage improvements to properties that increase energy efficiency and conservation of resources.
- e) Create programs and resources that better inform residents of basic green improvements that can be made to their homes.
- f) Promote walkability and pedestrian connectivity in new and redevelopment housing projects.
- g) Create programs that assist residents to implement green practices by providing technical resources (architects, construction experts) and financial resources.

VII. To respond to priorities, develop, drive, and inform residents and stakeholders regarding the housing market within Roseville.

- a) Each quarter, the HRA will ask guest speakers to represent to the HRA and Roseville community. These presentations will focus on issues like housing stabilization, preservation, code enforcement, LEED certification and sustainability.
- b) Promote and provide effective resources that meet the needs of our stakeholders while actively seeking out and developing service improvements.

- c) Consult stakeholders and actively listen to and act upon their views regarding development opportunities affecting their residences.
- d) Continue rethinking strategies internally to promote organizational development, continuous improvement, and appropriate responses to budget challenges and program changes.

VIII. To implement the Housing Goals contained in Roseville's 2030 Comprehensive Plan

- a) The HRA will, in coordination and consultation with the City Council, implement the housing goals and policies identified within the 2030 Comprehensive Plan.

IX. To encourage the development of neighborhood identities that build a sense of community and foster neighborhood interaction.

- a) In partnership with the City and other City commissions and boards, the HRA will assist residents in developing and maintaining neighborhood organizations and forums.
- b) The HRA will partner with neighborhood organizations to provide forums for residents to participate in the achievement of housing and neighborhood goals.

New ideas for programs (2010 +)

- 1) Work force housing – incentivize living/working in community**
- 2) Community Land Trust - creation/use existing land trust**
- 3) HIA policy**
- 4) Conduit Financing – collection of additional housing fee**
- 5) Rental Licensing**
- 6) Excessive Use Ordinance**
- 7) HRA purchase/develop property**
- 8) Senior Co-op (Ecumen)**
- 9) Energy Efficiency Pilot Project (Windows)**
- 10) “Green Book” How to do Green**
- 11) Use technology to better inform public**
- 12) Market City**

Program Review 2008-2012

2008 Levy Request: \$350,000

2009 Levy Request: \$258,000

Long Range Goals:

Home and Garden Fair

Annual fair featuring housing contractors, vendors, landscape companies and financing agencies.

- 2008 6-8 new sponsors (\$3,600+ in new revenue)
- 2009 10+ new sponsors (\$6,000+ in new revenue)

Multi Family Rehab

Renovation of older multifamily complexes through the use of revolving loans.

- Develop qualifying criteria for the disbursement of funds.
- Identify properties within the City that will qualify for funds.
- Speak with landlords about qualifying criteria and submittal process.

Ownership Rehab

Provides low interest loans for housing improvements.

- Determine if the Family Home Ownership Rehabilitation Loan Program and Owner Occupied Revolving Loan Program should be combined.
- Determine criteria with an emphasis on green and energy efficient design.

First Time Homeowner

Revolving loans for first time homeowners as well as loans for the repair of dilapidated or foreclosed properties.

- Determine if the City wishes to purchase dilapidated properties for renovation and resale.
- Determine if the City wishes to purchase foreclosed properties in order to resell to first time homeowners.
- Determine criteria for second mortgage.
- Establish increased levy amounts and overall funds for 2009 and beyond.

Neighborhood Enhancement

Prevention of nuisance properties within the City of Roseville.

- Work with the Council to develop proactive code enforcement policies.
- Temporary staff should be utilized to assist in the development of procedures similar to Shoreview Shines.
- Educate residents through newsletters and postings on code enforcement issues.

Redesign Initiative

Design standards and architectural guidelines for housing and commercial uses within the City of Roseville. The focus of these standards will be on green design and energy efficiency.

- Develop RFP for Roseville Redesign. Hire a consultant in 2008.
- Promote speaker series through e-mail alerts and postings.
- Create design scenarios that are specific to the City of Roseville and address issues like form, function, green building standards, water conservation and energy efficiency.

Staffing

Support staff needs for the Roseville HRA.

- Hire Housing Coordinator position in 2008.
- Identify training local and national training programs that encourage green design and promote progressive HRA involvement.

CONCLUSIONS AND RECOMMENDATIONS

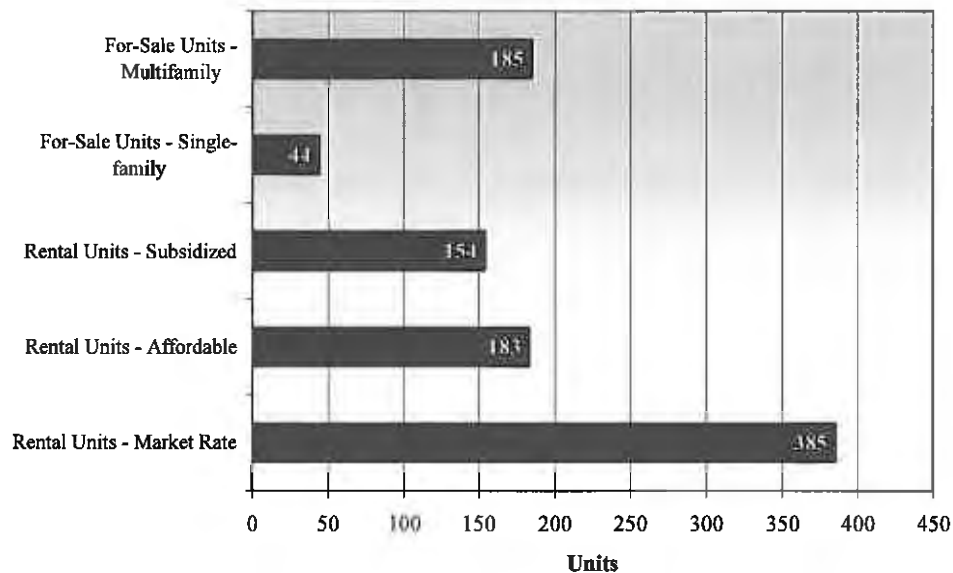
Introduction/Overall Housing Recommendations

This section summarizes demand calculated for specific housing products in Roseville and recommends development concepts to meet the housing needs forecast for the City. All recommendations are based on findings of the *Comprehensive Housing Needs Assessment*. The following table and charts illustrate calculated demand by product type. It is important to recognize that housing demand is highly contingent on projected household growth; household growth could be considerably higher with available land for development and increased densities.

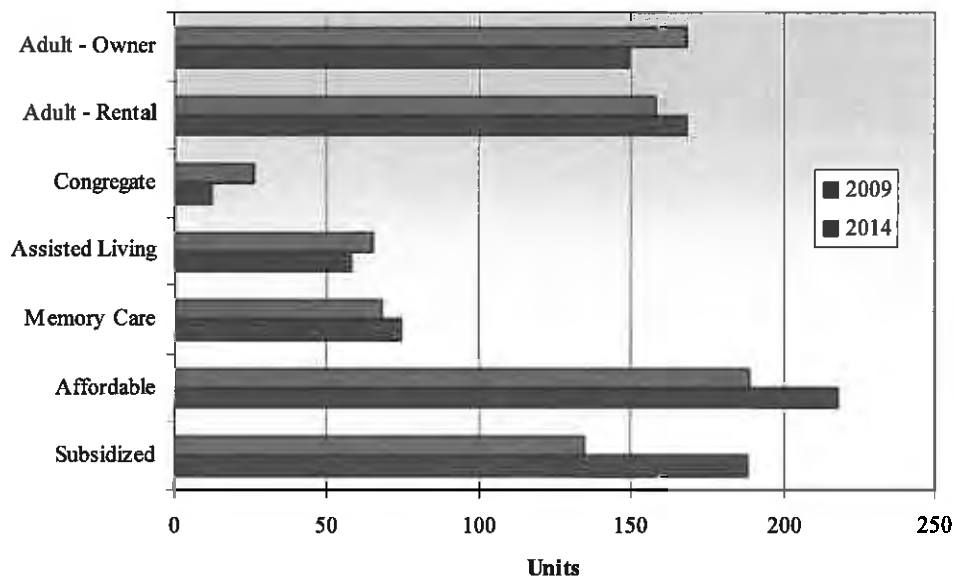
TABLE CR1 SUMMARY OF HOUSING DEMAND CITY OF ROSEVILLE JULY 2009			
Type of Use	2009 to 2020		
General-Occupancy			
Rental Units - Market Rate	385		
Rental Units - Affordable	183		
Rental Units - Subsidized	154		
For-Sale Units - Single-family	44		
For-Sale Units - Multifamily	185		
Total General Occupancy Supportable	951		
	2009	2014	
Age-Restricted (Senior)			
Market Rate			
Active Adult	326	317	
Ownership	168	149	
Rental	158	168	
Congregate	26	12	
Assisted Living	65	58	
Memory Care	68	74	
Total Market Rate Senior Supportable	485	461	
Affordable/Subsidized			
Active Adult - Subsidized	135	188	
Active Adult - Affordable	189	218	
Total Affordable Senior Supportable	324	406	
Note: Due to limited land availability, not all of the demand may be able to be developed in Roseville.			
Source: Maxfield Research Inc.			

CONCLUSIONS AND RECOMMENDATIONS

**General-Occupancy Demand by Type
2009 to 2020**



**Senior Housing Demand by Type
2009 & 2014**



Based on the finding of our analysis and demand calculations, Table CR2 on the following page provides a summary of the recommended development concepts by product type for the City of Roseville. It is important to note that these proposed concepts are intended to act as a development guide to most effectively meet the housing needs of existing and future households in Roseville. The recommended development types do not directly coincide with total demand as illustrated in Table CR1 due primarily to land availability and development constraints.

CONCLUSIONS AND RECOMMENDATIONS

**TABLE CR2
RECOMMENDED HOUSING DEVELOPMENT
CITY OF ROSEVILLE
2009 to 2020**

	Purchase Price/ Monthly Rent Range¹	No. of Units	Pct. of Total	Development Timing
Owner-Occupied Housing				
Single-Family/Detached Townhomes²				
Move-up	\$350,000 - \$500,000	25 - 30	63%	2010+
Executive	\$500,000+	15 - 20	38%	2011+
Total		40 - 50	100%	
Multifamily Townhomes/Twin Homes³				
Entry-level	\$200,000 - \$275,000	60 - 70	60%	2012+
Upper-end	\$300,000+	40 - 50	40%	2012+
Total		100 - 120	100%	
General Occupancy Rental Housing				
Market Rate Rental Housing	\$775 - \$1,750	80 - 100	50%	2009+
Affordable Rental ⁴	Moderate-income	80 - 100	50%	2009+
Total		160 - 200	100%	
Senior Housing				
Active adult affordable rental **	Moderate-income	50 - 60	21%	2009+
Active adult market rate rental **	\$875 - \$1,700	60 - 80	26%	2012+
Active adult owner	Market (coop/condo)	60 - 70	26%	2013+
Assisted Living	\$2,600 - \$3,900	40 - 50	17%	2013+
Memory Care ⁵	\$3,500 - \$4,500	24 - 36	10%	2013+
Total		234 - 296	100%	
Alternative Development Concept**				
Active adult rental - mixed income	Mix of MR & affordable	80 - 90	34%	2009+

¹ Pricing in 2009 dollars. Pricing can be adjusted to account for inflation.

² Replacement need only. Development of single-family or detached townhomes will hinge on land availability. Due to Roseville's location, there is pent-up demand that exceeds the replacement need.

³ Additional demand (65 - 85 units) can be fulfilled between 2015 and 2020. We do not recommend a condominium component until 2015 or later.

⁴ Roseville could potentially support multiple affordable products through 2020. However, we recommend phasing affordable housing development over the next decade.

⁵ Memory care housing could be a component of a assisted-living or service-intensive congregate building

** Alternative development concept is to combine active adult affordable and active adult market rate into one mixed-income community.

Note: Roseville may not be able to accommodate all recommended housing types based on land availability and development constraints. Recommended development does not directly coincide with total demand.

Source: Maxfield Research Inc.

CONCLUSIONS AND RECOMMENDATIONS

Single-Family Housing

As a first-tier suburb in the Twin Cities Metropolitan Area, the City of Roseville has a very limited amount of vacant land. Should the land supply be greater in the City, we acknowledge that demand for single-family housing would be very strong. However, due to the limitations of land availability, we recommend that the City optimize the remaining vacant parcels by developing a variety of multifamily housing product types rather than single-family housing. The modest number of single-family housing recommended for the City of Roseville in the following discussion is a factor of the replacement need of older single-family homes.

Due to the age, quality and price of Roseville's existing housing stock, most of the existing housing stock appeals to and meets the housing needs of entry-level homeowners. Homeowners who desire move-up and executive housing, which is typically priced at \$350,000 and above, have likely been forced to relocate to adjacent communities, including Arden Hills, New Brighton, Moundview, Shoreview and North Oaks, since modest housing product in this price range is available in the City. We believe there is an opportunity to offer higher-amenity homes that would be attractive to households in the existing resident base who desire to continue to reside in the City but find that little housing is available to meet their preferences.

We recommend that an additional 40 to 50 single-family homes be built in the City, of which 25 to 30 would be move-up homes priced from \$350,000 to \$500,000 and 15 to 20 would be executive homes priced above \$500,000. As stated earlier, should additional land become available for single-family housing, we believe the City could support a much higher number of new single-family homes across a wider price point spectrum.

It is important to note that some demand for single-family housing will be satisfied by the existing housing stock (this turnover demand is not included in the above recommendations). As the study discussed, much of the growth in Roseville is forecast in the older adult and senior age cohorts, which will support demand for new senior housing products in the City of Roseville. As these older adults and seniors relocate to other housing options, their existing single-family homes will become available for new younger households to purchase a home in Roseville.

For-Sale Multifamily Housing

Based on the availability of land, demographics of the resident base and forecast trends, we find demand for 185 new attached multifamily housing units. These attached units could be developed as townhomes, twin homes or a combination of the two housing products. Due to the continued downturn in the condominium market, we do not recommend a condominium component through 2015. The following provides additional details on the target market and development recommendations for each for-sale multifamily housing product recommended.

In total, we recommend development of 60 to 70 entry-level multifamily units priced below \$275,000 and 40 to 50 upper-end multifamily units priced above \$300,000. Due to the current recession and slowdown in the for-sale market, we recommend that the City of Roseville wait until at least 2012 to move forward with additional for-sale multifamily housing product.

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- *Side-by-Side and Back-to-Back Townhomes* – This housing product is designed with four or more separate living units and can be built in a variety of configurations. With the relative affordability of these units and multi-level living, side-by-side and back-to-back townhomes have the greatest appeal among entry-level households without children, young families and singles and/or roommates across the age span.

Households typically choose this housing product for the maintenance-free lifestyle and relative affordability for new construction housing. Although a primary reason for attached multifamily housing is affordability, we recommend that attention be placed on the visual and structural quality of housing as well as its compatibility with the architecture of surrounding homes.

- *Twinhomes and One-Level Townhomes* – By definition, a twin home is basically two units with a shared wall with each owner owning half of the lot the home is on. Some one-level living units are designed in three- or four-unit buildings in a variety of configurations. The swell of support for twinhome and one-level living units is generated by the aging baby boomer generation, which is increasing the numbers of older adults and seniors who desire low-maintenance housing alternatives to their single-family homes but are not ready to move to service-enhanced rental housing. Housing products designed to meet the needs of these aging Roseville residents, many of whom desire to stay in the City if housing is available to meet their needs, will be needed into the foreseeable future.

We recommend that development of twinhomes and one-level townhomes be comprised of a lesser percentage of homes priced between \$250,000 and \$275,000 as well as a higher percentage priced above \$300,000. Many seniors will move to this housing product with substantial equity in their existing single-family home and will be willing to purchase a nicer, more efficient home that is similar to or slightly above the price point of their existing single-family home.

General Occupancy Rental Housing

Our competitive inventory identified that no new general occupancy rental product has been added to the City of Roseville for nearly two decades. Due to the age and positioning of the existing rental supply, a significant portion of units are priced at or below HUD guidelines for affordable housing, which indirectly satisfies demand from households that income-qualify for financially assisted housing. As a result, a limited portion of the existing rental stock actually caters to those who desire newer contemporary market rate rental housing.

Based on our analysis of the existing rental stock and availability of different general occupancy rental housing types, **we recommend development of 80 to 100 market rate rental housing units and 80 to 100 affordable units.** We believe these product types could be developed as soon as 2010.

- *Market Rate General Occupancy Rental* – The existing rental supply in Roseville has a significant mix of ages and household types represented. A new rental project will also have a

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diverse resident profile, but we anticipate that a higher proportion of young to mid-age professionals as well as singles and couples across the age span would be captured at the development. Additionally, due to the locations of Northwestern College and Bethel University, it is likely some units would be occupied by college students and/or recent graduates who reside as roommates.

The new market rate rental units should be designed and priced comparable to the two existing luxury properties in Roseville as well as contemporary properties located in the surrounding suburbs. We believe the addition of such a rental building will facilitate greater housing choice in the City and will better serve the needs of households that live and/or currently work in Roseville.

New rental properties under construction or recently developed in the Twin Cities are charging rents on average from \$1.25 to \$1.50 per square foot in suburban locations to \$1.80 to \$2.00 per square foot in high-amenity urban locations such as Minneapolis and St. Paul. New suburban properties in third and fourth-tier suburban communities such as Lakeville, Eagan and Woodbury are charging between \$1.25 and \$1.40, on average. A project in Roseville would fall within the aforementioned price per square foot range for suburban communities, approximately \$1.25 to \$1.35 per square foot.

- **Affordable Rental Housing --**

Although there is demand for approximately 185 affordable units over the next decade, we recommend phasing the units with no more than 80- to 100 units in the short-term targeting moderate-income household types. Much of the existing rental stock that functions as affordable housing is in multistory buildings with a higher percentage of smaller unit types, which often cannot comfortably accommodate family households. New affordable units would attract many existing Roseville residents residing in older market rate properties seeking larger unit sizes and more modern unit and building amenities. In addition, affordable housing will be attractive to households from outside Roseville who seek to reside in the community to have close proximity to employment, shopping, and schools. As a result, the demand for affordable products could be even higher than what is actually stated.

We recommend an affordable family townhome component with a mix of two- and three-bedroom units that could be designed as rowhomes or back-to-back structures in order to manage the development costs of these units. Alternatively, a traditional three-story building would also accommodate affordable demand should the unit mix be weighted towards larger unit sizes. Over the next decade, affordable housing demand is sufficient to be able to accommodate housing types in both townhome-style and apartment-style buildings.

With new rental housing units added to the City of Roseville, there may be increased occupancies among the existing rental stock, particularly among older properties that are unable to compete with newer, contemporary market rate properties. According to Metro HRA, approximately 210 Section 8 housing vouchers are being utilized in the City. We recommend an increase in the acceptance of vouchers in order to meet the significant demand for subsidized housing in the City of Roseville.

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Additionally, we believe the existing rental stock plays a critical role in providing (indirectly) affordable housing to moderate-income households. Efforts to maintain and/or improve the quality of these older properties may be needed in order to continue to provide high-quality housing that meets the needs of moderate-income households.

Senior Housing

As illustrated in Table CR1, strong demand exists for senior housing in the City of Roseville. Although Roseville already has an array of senior housing options, much of the forecast growth in Roseville is a result of the existing population base aging into the older adult and senior age cohorts. Development of additional senior housing is recommended in order to provide housing opportunity to these aging residents in their stages of later life. The types of housing products needed to accommodate the aging population base are discussed individually in the following section.

Before moving forward in our discussion, it is important to note that similar to other established suburbs in the Metro Area, the age distribution is weighted toward the older adult and senior cohorts. The development of additional senior housing serves a two-fold purpose in meeting the housing needs in Roseville and other established communities: older adult and senior residents are able to relocate to new age-restricted housing in Roseville, and existing homes and rental units that were occupied by seniors become available to other new households. Hence, development of additional senior housing does not mean the housing needs of younger households are neglected; it simply means that a greater percentage of housing need is satisfied by housing unit turnover.

- ***Active Adult Rental*** – In the near-term, we recommend development of an 80 to 90 mixed-income active adult rental project in the City of Roseville. Currently, no market rate or affordable (i.e. shallow subsidy) active adult rental housing is available in the City. Older adults and seniors who desire these housing products have either been forced to relocate to other communities outside the City of Roseville or are residing at general occupancy rental projects. We believe a mixed-income building would be an ideal development concept to create the most dynamic, inclusive community for active seniors and to temper stigmas and potential neighborhood opposition of affordable housing development.

Due to the current recession and housing market slowdown, many markets have experienced delays in realizing demand for market rate active adult housing. These delays are the result of seniors who choose not to sell their homes or find they are unable to sell their homes, along with the fact that active adult rental housing is not need-based. While the affordable component of the mixed-income building could be built as soon as this year, we recommend that development delay until 2011 in order to allow the market to regain momentum. Alternatively, the project could be built in two phases (with affordable housing in the first phase) or, less ideally, developed separately due to the conditions.

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- ***Active Adult Ownership*** – Currently, there are two active adult ownership projects in Roseville and both continue to perform extremely well. In addition, United Properties is moving forward with the first phase of a senior cooperative (51 units) while planning for a second phase (44 units) after the for-sale market rebounds. We forecast that owner-occupied, age-restricted housing will continue to be a product of choice for active seniors, and that demand for this housing product will increase into the foreseeable future. However, due to the slow-down in the housing market, it would be best to wait for a full market recovery before moving forward with this housing product (2013 or later). **We recommend development of a 60- to 70-unit senior cooperative or condominium building.** Should additional land be available, the City would be able to support an even greater number of senior cooperative or condominium units.
- ***Service-Enhanced Senior Housing*** – Based on our analysis, **we recommend development of an additional 40 to 50 units of assisted living housing and 24 to 36 units of memory care housing.** At this time, we do not find sufficient demand for additional congregate senior housing (i.e. independent living with services). Based on the various dynamics impacting the senior housing market in Roseville, we recommend that new service-enhanced housing not be delivered until 2013 or 2014. At that time, additional analysis of the market could be undertaken to determine the viability of new service-enhanced senior housing in the City.

Challenges and Opportunities

Table CR2 identified and recommended housing types that would satisfy the housing needs in Roseville over the next ten years. The following were identified as the greatest challenges and opportunities for developing the recommended housing types.

- **Land Constraints.** As previously stated, the City of Roseville has few existing areas within the community that can accommodate residential development. The City has a limited supply of residential lots suitable for single- or two-family housing developments, as such future development will likely occur on infill or redevelopment sites throughout the City. According to the Regional Multiple Listing Service of Minnesota, there are only 14 actively marketing land listings in the City, most of which are priced at or above \$150,000 per lot. As a result, the City may not be able to accommodate all of the housing demand outlined in Table CR1 based on the current lot supply inventoried in Table HC3. Furthermore, the lack of supply drives up the cost of land which places upward pressure on housing price.

Due to Roseville's location, housing demand could be significantly higher should Roseville have the available land to accommodate future growth. New single-family housing in particular would be highly desired.

- **Housing Densities.** In an effort to reach the demand potential with limited land, increased densities will allow for more diverse future housing products that maximize the housing types developable on a parcel. Higher density projects can capitalize on economies of scale to provide greater affordability. The City should allow for flexibility among zoning requirements and encourage creative site planning as a means to increase density and provide great-

CONCLUSIONS AND RECOMMENDATIONS

er housing opportunities. Such flexibilities may include reductions in setbacks, parking requirements, floor area, lot area, etc. We especially encourage higher densities near employment and transit corridors and new urbanism and mixed-use development.

The chart on the following page shows net housing densities by product type that may be achieved. There is a movement in many Metro Area communities to smaller lot sizes through planned unit developments that results in higher densities and more affordable housing costs.

TYPICAL HOUSING DENSITIES BY PRODUCT TYPE	
Product Type	Net Units Per Acre
DETACHED HOUSING	
Single Family	
Executive (90' wide lot+)	1.75 - 2.50
Standard (60'-80' wide lot)	2.75 - 3.75
Small Lot (less than 50')	4.00 - 5.00
Detached Townhomes/Villas	4.50 - 6.00
ATTACHED HOUSING	
Twin Homes	6.50 - 8.00
Townhomes/Rowhomes	10.00 - 14.00
Low/Mid-Rise Multifamily	40.00 - 50.00
Six-Story Multifamily	65.00 - 75.00
Hi-Rise Multifamily	85+
Sources: Maxfield Research Inc., Urban Land Institute, <i>Site Planning</i>	

- **Affordable Housing.** Due to the older housing stock of both owner-occupied and renter-occupied housing, the need for general occupancy affordable housing is being mostly fulfilled by the product in the marketplace. First-time home buyers are able to purchase entry-level homes, and many market rate rental developments have rents that are considered affordable.

However, there is a need for more diversity among housing types that are affordable, especially for families and seniors. Most of the existing housing stock cannot accommodate larger families that desire three or more bedrooms per unit. In addition, there is a need for affordable age-restricted housing with and without services.

We also recommend targeting housing assistance programs towards producing housing for the workforce – or those households earning between 80% and 120% of AMI.

- **Financial Barriers.** The economics of developing affordable housing are difficult to achieve, especially with increasing land costs and property taxes. Partnerships between the City and developers should be sought to help alleviate some of the overall carrying costs. In

CONCLUSIONS AND RECOMMENDATIONS

addition, the City should offer developer incentives and/or housing bonuses and should consider donating City owned land to affordable housing developers.

- **Aging of Population.** As illustrated in the *Demographic Analysis* section of the report, Roseville is aging and will continue to age for the next few decades. The leading edge of the baby boom generation will be entering their mid-60s after 2010 and the demand for senior housing is expected to be strong past 2030 in the Metro Area. Many baby boomers will desire to retire near their single-family residence and will seek a maintenance free housing type initially, before desiring housing with services after 2020.

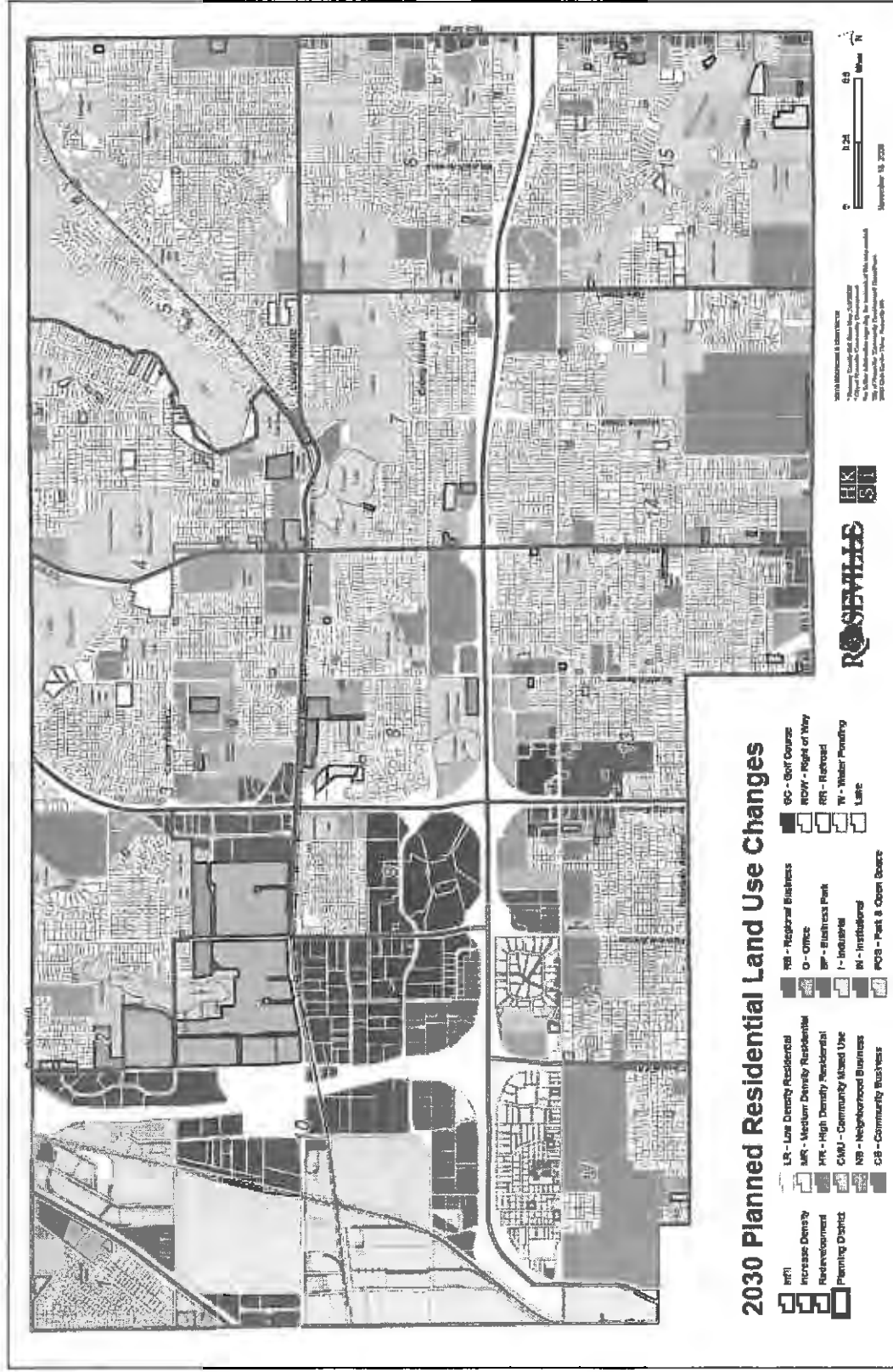
The development of age-specific housing to accommodate this demographic shift will free-up the existing housing stock to allow new younger generations to purchase single-family housing in Roseville.

- **Land Banking.** Land Banking is a program of acquiring land with the purpose of developing at a later date. After a holding period, the land can be sold to a developer (often at a price lower than market) with the purpose of developing housing. The City should consider establishing a land bank to which private land may be donated and public property may be held for future affordable housing development.
- **Twin Lakes Redevelopment.** Over the past decade the City of Roseville has been planning for the redevelopment of 275-acres, of which about 170-acres remains available for redevelopment. The area is planned for a mix of real estate products, however residential uses could potentially absorb significant acreage. As a result, this area could create induced demand for additional housing products in Roseville.

Land Use Changes

As mentioned previously, new housing units in the City of Roseville will be the result infill development, increased housing densities and redevelopment. A map on the following page shows future housing development areas available in the City of Roseville according to the 2030 Comprehensive Plan.

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City Priorities

Based on the findings of our analysis, the following is a priority summary for the City of Roseville. Priorities are identified in sequential order, beginning with the task/product type deemed most important.

1. Develop an affordable active adult senior housing community with plans for a future second phase of market rate active adult housing.
2. Develop an affordable family rental housing community.
3. Develop market rate general occupancy rental housing positioned as an upscale rental community.
4. Increase availability of Section 8 vouchers among existing rental communities in the City.
5. Provide support for rehabilitation and replacement of existing single-family and multifamily housing. Educate homeowners and rental property owners about available loan programs.
6. Develop owner-occupied (cooperative preferred) active adult senior housing.
7. Develop general occupancy for-sale townhomes designed for entry-level buyers and older adult/senior households.
8. Reassess the need for additional service-enhanced senior housing products. Should housing need for service-enhanced housing be sustained, we recommend development of additional senior housing.

City of Roseville

Demographic Information

Attachment F

Category	2000	2010	% change		Metro 2010	% Difference	
POPULATION							
Total Population	33,690	33,660	-0.09%		3,279,833		
Median Age	41.0	42.1	2.68%		36.0	16.9%	more
Male	46.50%	47.10%	1.29%		49.4%	-4.7%	less
Female	53.50%	52.90%	-1.12%		50.6%	4.5%	more
<18	18.20%	18.60%	2.20%		25.0%	-25.6%	less
65 and older	20.30%	20.20%	-0.49%		10.7%	88.8%	more
75 and older	11.10%	11.30%	1.80%		5.0%	126.0%	more
< 10	9.60%	10.30%	7.29%		13.9%	-25.9%	less
RACE							
White	89.50%	81.30%	-9.16%		81.0%	0.4%	more
Black	2.80%	6.20%	121.43%		7.4%	-16.2%	less
American Indian	0.30%	0.50%	66.67%		0.7%	-28.6%	less
Asian	4.90%	7.30%	48.98%		5.7%	28.1%	more
Hispanic	2.00%	4.60%	130.00%		5.4%	-14.8%	less
Biracial	1.70%	2.70%	58.82%		0.4%	575.0%	more
HOUSEHOLDS							
Total Households	14,598	14,623	0.17%		1,272,677		
Family Households	58.90%	57.50%	-2.38%		64.5%	-10.9%	less
Family HH w/Kids under 18	22.20%	21.80%	-1.80%		31.2%	-30.1%	less
Non-Family Households	41.10%	42.50%	3.41%		35.5%	19.7%	more
Living Alone	33.60%	35.30%	5.06%		27.5%	28.4%	more
Average Household Size	2.2	2.2	0.00%		2.5	-12.0%	less

(Source 2000, 2010 Census)

City of Roseville

Housing Information

Category	2000	2010	% change
Housing			
Total Occupied Housing	14598	14,623	-0.17%
Owner Occupied	67.5%	67.2%	
Owner Occupied - Family HH	48.90%	45.8%	-6.34%
Owner Occ. Non-Family	18.50%	21.4%	15.68%
Owner Occ. Living Alone	15.80%	18.4%	16.46%
Rental Occupied	32.50%	32.80%	0.92%
Rental Occupied - Family	10.00%	11.70%	17.00%
Rental Occupied-Non Family	22.5%	21.1%	-6.22%
Rental Occupied - Living Alone	17.8%	16.9%	-5.06%
Living Alone- All Units	33.60%	35.30%	5.06%
Average Household Size	2.2	2.20	0.00%
Owner Occupied	2.4	2.34	-2.50%
Rental	1.69	1.92	13.61%
Population living in			
Owner Occ with mortgage	NA	51.5%	
Owner Occ without mortgage	NA	20.0%	
Renter Occupied	NA	28.6%	
Total Occupied Housing Units	14598	14623	0.17%
Owner Occupied Units			
White	64.1%	61.8%	-3.59%
Black or African American	0.7%	1.1%	57.14%
American Indian	0.1%	0.1%	25.00%
Asian	1.9%	2.7%	42.11%
Hispanic or Latino	NA	1.0%	
Two or more races	0.3%	0.5%	66.67%
Rental Units			
White	27.7%	23.3%	-15.88%
Black or African American	1.8%	4.2%	133.33%
American Indian	0.2%	0.3%	50.00%
Asian	1.8%	2.4%	33.33%
Hispanic or Latino	NA	2.0%	
Two or more races	0.4%	0.6%	50.00%

Source: 2000 and 2010 US Census

**City of Roseville
Businesses and Jobs 2011**

Attachment H

NAICS Classification	# Businesses	# Jobs	% of Businesses	% of Jobs	Jobs per business	Examples
Agriculture	11	87	0.4%	0.2%	7.9	Nurseries, orchards
Utilities	4	271	0.2%	0.7%	67.8	Electric utility
Construction	160	1722	6.0%	4.7%	10.8	General contractors, home builders
Manufacturing	125	2749	4.7%	7.6%	22.0	Manufacturing, electronics
Wholesale Trade	158	1721	6.0%	4.7%	10.9	Wholesale Goods
Retail Trade	347	6057	13.1%	16.7%	17.5	Retail shops, car dealers, gas station, grocery stores
Transportation/Warehousing	61	1178	2.3%	3.2%	19.3	Freight, Buses, Limousines, warehousing
Information	52	1120	2.0%	3.1%	21.5	Publishers, software, telecommunications
Finance and Insurance	153	925	5.8%	2.5%	6.0	Banks, Insurance sales
Real Estate/Leasing	268	1508	10.1%	4.2%	5.6	Building owners, property managers, real estate agents
Professional, Scientific, and Tech Services	400	6055	15.1%	16.7%	15.1	Lawyers, architects, engineering, testing, research, veterinary services
Management of Companies and Enterprises	4	72	0.2%	0.2%	18.0	Holding companies
Administrative Support and Waste Management	309	1611	11.6%	4.4%	5.2	Temp agencies, clerical, collection agencies, solid waste collection
Educational Services	40	2292	1.5%	6.3%	57.3	Schools, public, private, and trade
Health Care/Social Services	212	2428	8.0%	6.7%	11.5	Clinics, doctors, dentists, nursing homes, assisted living
Arts, Entertainment, and Recreation	24	229	0.9%	0.6%	9.5	Theaters, health clubs, golf courses
Accommodation and Food Services	117	3437	4.4%	9.5%	29.4	Restaurants, hotels, caterers
Other Services	192	1582	7.2%	4.4%	8.2	Auto Repair, churches, barbers, civic organizations
Public Administration	17	1293	0.6%	3.6%	76.1	City, County, State Government
Totals	2654	36337				

Source: Dunn and Bradstreet, 2011

Culture change or fad? Twin Cities population shifts toward central core

by Bill Clements

Published: September 7th, 2011

All that talk in recent years about “transit-oriented” and “mixed-use” developments appears to be more than just talk: Regional planners now have the data to back it up.

Planners for the Metropolitan Council released the information, which points to a statistically significant trend of more people in the seven-county metro region moving closer to the central core of cities and to more accessible transit options in higher-density areas. The land-use data also project a fast acceleration of the shift in the next 20 years.

It's contained in a study that considers the 2005-10 period and looks forward to 2030.

(The projections to 2030 are based on land-use estimates in the comprehensive development plans, referred to as “comp plans,” that metro cities last updated with the Met Council in 2008).

This move toward smaller houses and multifamily and transit-oriented housing closer to cities “is not a flash in the pan,” said Ryan Jones, director for the Twin Cities of Metrostudy, a construction industry group that studies and tracks new home building. “However, it's not going to be the absolute for everyone.”

In other words, whether the shift is a long-term cultural change or a fad is still in question.

The shift started in the late 1990s, said John Kari, a Met Council planning analyst. It got a boost after the start of the Livable Communities Act and its programs “that really helped communities see the synergistic potential of walkable, connected land uses particularly with transit,” he said in an interview.

And it's significant.

“This is the major change in planned land-use expectations that we've seen since we've been doing local comp plans since the '70s,” Kari told the council in a recent presentation.

Key to this concept are “mixed-use” developments, which Kari and research manager Libby Starling have defined as “connected and integrated” developments that serve two or more purposes — retail, commercial and residential. They do not have to include residential.

“A lot of communities don't know exactly what the mixture [of mixed-use] will be in future,” Kari said, “but this is where they want to see development, where they expect it to go — and it's more likely to be higher-density development.”

The land-use study data found that 5,625 acres in the metro area were taken up by mixed-use development in 2010, and projected that number will soar to more like 55,000 acres by 2030.



Robb Bader is vice president of St. Louis Park-based Bader Development. Three Bader generations work in the same office and these days are focused on developments closer to city cores and transit options — like the Ellipse, a year-old mixed-use development on Excelsior Boulevard in St. Louis Park. It has been 100 percent leased for months.
(Staff photo: Bill Klotz)

The data also show that transitway corridors in 2010 took up 8.4 percent of the region's land area. But by 2030, it's expected that transitway corridors will be home to 31.6 percent of mixed-use acres and 22.7 percent of high-density acres.

The bottom line, Kari told the Met Council, is that the new major transit corridors — like the Hiawatha, Central and Southwest light rail lines — are being built in established highway corridors.

"You put two and two together, and you can see that where we are investing in new infrastructure is in the transitway corridors," Kari told the council. "We are out of the highway business [out of building new roads]."

In the interview, Kari wondered whether the trend will stick: "As we come out of this recession, it will be very interesting to see how the market responds. Is that a permanent shift toward more permanent attached and smaller single-family detached housing?"

He thinks it just might be.

"The transit system really complements the highway corridors," Kari added. "Like when we had the railway- and water-transportation systems, I think our highway and transit systems will work together to give us a real transportation network.

"And where they overlap are the places that will see real growth."

An example of a successful mixed-use, close-in development is the Ellipse on Excelsior Boulevard in St. Louis Park, which opened on Sept. 1, 2010. It's within a half-mile radius of a planned stop along the Southwest Corridor LRT line and just off Highway 100.

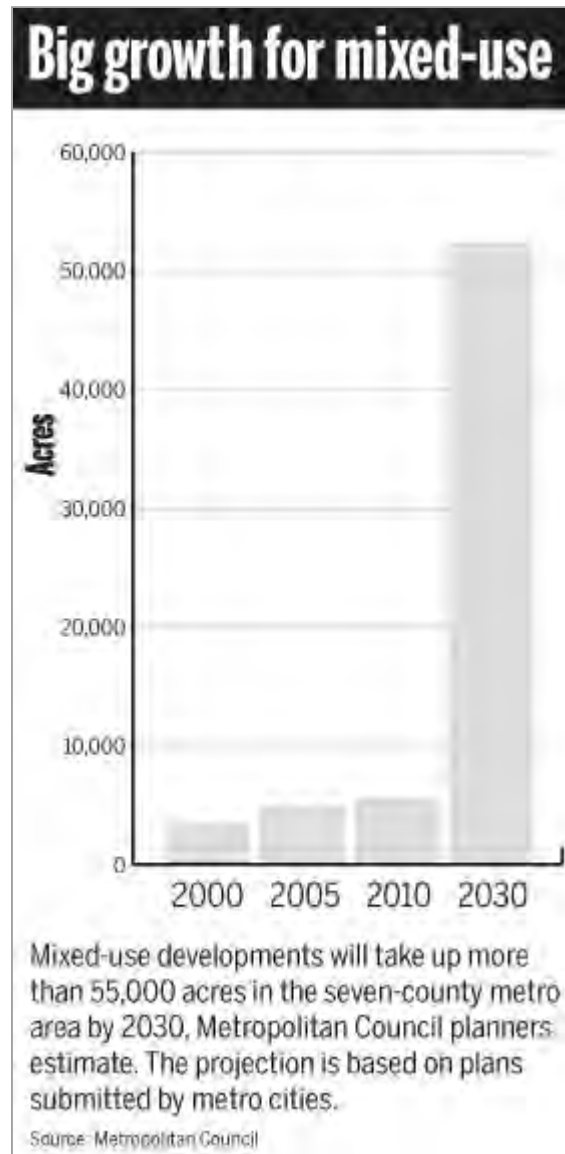
Robb Bader, vice president of Bader Development, an arm of St. Louis Park-based Steven-Scott Management, said the 132 rental units in the Ellipse have been 100 percent leased since February — and the four retail spots have been filled and open since June 1.

"We had confidence in the residential lease-up; we knew that would be a good area," Bader said. "The commercial, we were pleasantly surprised at how quickly that leased up."

Bader said his firm is in initial discussions with St. Louis Park officials about beginning a second phase — Ellipse II, which would be a 50- to 60-unit rental development next to Ellipse I.

Rents at Ellipse I range from about \$1,100 for a 550-square-foot studio to about \$2,300 for a 1,400-square-foot two-bedroom plus den.

"We certainly know that the rents need to justify construction costs, and right now that is happening close in to the city so that's where we are building — along with many other people trying to get projects going," Bader said.



The numbers on the left of the chart represent the existing and expected acres that "mixed-use" developments took up in the metro area in 2000, 2005 and 2010 — and estimates for 2030. The projections to 2030 are based on land-use estimates contained in "comp plans" that metro cities last updated with the Met Council in 2008.

He added that while access to transit was an important factor for where his firm built the Ellipse, "We still believe that the Minnesotan is really a vehicle-driven person. We're not quite there yet in terms of transit."

(Submitted chart: Metropolitan Council)

Kevin Locke, community development director for St. Louis Park, said the city's planning goal is "to make people places and not car places. It's not that we don't accommodate a car — most of us still drive cars.

"But we can do our best to focus more on the pedestrian and the residents and less on the car."

Jones of Metrostudy said the "resurgence" of the multifamily rental market is "a combination of the fears about the economy and with home buying."

He suggests that the shift is part of a cycle.

"These types of cycles happen all the time — before it was more out of the city and into the far-out suburbs, and now it's moving back into the city," Jones said. "But just when you think you've got it all figured out, it starts to change again."

Complete URL: <http://finance-commerce.com/2011/09/culture-change-or-fad-twin-cities-population-shifts-toward-central-core/>

Attachment I



URBANLAND

April 26, 2011

Reinventing Real Estate

By Jim Heid

The still looming waterfall of maturing commercial mortgage-backed securities, the slowly thawing capital markets, and the ongoing uncertainty about where the next market will come from have left real estate professionals searching for solid ground. Entering the third year of the broad recession, the industry has retrenched, reorganized, and is struggling to recapitalize. But is the industry retooling?

Why the next 24 months will matter more than the past 24 years.

The March 2008 collapse of Bear Stearns signaled the end of real estate's extended bull run. The September 2008 triecta of the Lehman bankruptcy coupled with the Washington Mutual and Wachovia bank weekend fire sales shook the real estate industry to its core. The still looming waterfall of maturing commercial mortgage-backed securities, the slowly thawing capital markets, and the ongoing uncertainty about where the next market will come from have left real estate professionals searching for solid ground. Entering the third year of the broad recession, the industry has retrenched, reorganized, and is struggling to recapitalize. But is the industry retooling?

For years the industry has accepted *real estate* as the all-encompassing term for both what it does and what it creates. By definition, real estate is "all land and improvements that are immovable." But the increasing complexity of how the industry goes about its business and, more important, the positive impact it can have on the broader society, defies the static nature of this one-dimensional definition. Recently, industry leaders are shifting the discussion from the topic of real estate to the *built environment*. The latter term provides a more apt, multidimensional view of the industry's scope, encompassing "the manmade surroundings that provide the setting for human activity."

Changing how the industry thinks about what it does as less "immovable land and improvements" and more "providing the setting for human activity" is anything but subtle. It creates a very different call to action and, if the industry chooses, positions it to be one of the most positive forces of the coming decade for resolving the complex challenges associated with human settlement.

From Commodity to Responsible Real Estate

After World War II, real estate development changed from an industry of locally focused entrepreneurs who took great pride and responsibility in their communities, to one of a global nature that delivered a range of "products." As companies sought to make these products conform to a formula or easily replicated template-

be they garden apartments, grocery-anchored shopping centers, subdivisions, or suburban office parks—they provided diminishing returns in terms of their contribution to the natural environment and society.



The past 20 years were instructional because they made manifest, more than at any other time in history, the good, the bad, and the ugly of the real estate profession. The ongoing evolution of the industry, and a sampling of its products, is portrayed in the figure at left.

The four categories represented on this continuum define the choices the industry has made collectively, and the mileposts of its potential. Each category has varying degrees of complexity, contribution to society, and, many would argue, risk and reward.

Commodity real estate results when the industry focuses only on maximizing efficiency—creating, replicating, and rolling out product regardless of region or community setting. A one-size-fits-all solution, it is the widget end of the business. The entire national landscape is pockmarked with its legacy and the environmental and human impacts left in its wake. It could be said that it represents the worst the profession has to offer, and as such is the basis for so much derision toward what the industry does.

Trophy real estate is where some of the industry's greatest innovation—and most photogenic projects—have evolved. But too often it is a "look at me" creation—dismissive of underlying social and environmental needs. Due to its showmanship rather than substance, much of this class of real estate lies in distress, overleveraged and underwater, because it was built up on promotion and fleeting status in lieu of a deeper sense of purpose.

Investment real estate is the more stable product class, emerging when real estate is viewed through the same lens as a stock or bond. A tangential interest in societal contribution may have been involved in its creation, but it is largely a product of financial engineering, efficiency of design, strong delivery, asset management, and branding. It may serve as a good neighbor or corporate citizen for communities, supporting employment or housing choice, but it is rarely a game changer in terms of the larger built environment.

Responsible real estate builds on the lessons of all previous categories while upping the ante. It is the best that the industry can be, representing the innovation and creativity often found in trophy real estate, coupled with the financial discipline and strong execution capacity associated with investment real estate. But it adds a third dimension—a true recognition of the real estate industry's role and responsibility to positively shape the built environment. It is not a "look at me" outcome, but a conscious and deliberate response to the need for economic return and creation of social good. It works seamlessly with its existing context and respectfully with its community partners. It delivers long-term value—not just to its investors, but to its host community as well.

Will This Be the Decade of Real Change?

At the turn of the millennium, responsible real estate represented the fringe. It was often cloaked in the simplest of green trappings—resource-efficient technologies, a location awaiting transit, and entitlement-extracted impact fees that were spun as social equity. As the industry enters the next 24 months, this could

be the moment when real change in the built environment is created. The industry has already developed the tools and skills to create complex capital stacks and technologically sophisticated buildings. It regularly wrestles with complex site planning challenges and even more complex operating agreements. But just as important as what the industry has learned to do is how markets are changing to leverage these increasingly sophisticated skills.

Demographic trends, not just government policies, are shifting the industry's energy to transit-focused and walkable locations instead of the cheapest available sites at the edge of communities. Perceptions of status—both by consumers and tenants—are moving from trophy designs to smaller footprints, more environmentally responsible operations, and healthier indoor environments. Social equity, more broadly defined and measurable than ever before, is being thoughtfully incorporated and discussed as part of initial project programming and capitalization rather than being negotiated during the public entitlement process.

The next 24 months provide the industry with a strategic opportunity to build on what it does well, while adding the additional skills needed to emerge from the downturn as a powerful force for solving many of today's most challenging problems. No other industry has the collective capacity, problem-solving skills, and ability to move others from pontification to execution. Industry professionals must be prepared to get the next generation of development done right when the market rebounds.

While similar predictions for change have been heard at the end of previous downturns, there are three reasons why this time can be different:

- **The changing calculus of value.** Buyers and tenants in the next cycle will be calculating costs and value in a more multidimensional way than ever before. Quality of life, walkability, access to cultural facilities and events, a smaller environmental footprint, and even being part of the "urban vibe" are among a more complicated set of variables that will help users determine perceived value.
- **A leveling of the playing field.** The cost differential for developing responsible real estate rather than commodity real estate is real. It is not only about first costs, but emotional and intellectual investment as well. To help move from policy to reality, a number of forward-thinking government agencies are bringing risk capital and know-how to the table to help level the playing field for developers who choose to focus on responsible rather than commodity real estate.
- **A movement from niche to portfolio.** For years, green building and socially responsible development was the niche of a few forward-thinking individuals. Today, responsible real estate investment is rapidly moving into the mainstream, fueled by institutional investors who see green as a proxy for increased long-term value—an insurance policy against future obsolescence, a sign of higher-quality construction, and a more holistic definition of their fiduciary responsibility.

The destruction of real estate values increasingly correlates with geography. The axiom of "location, location, location" is taking on a new dimension because this past cycle demonstrated an increasing relationship between loss of market value and the least environmentally responsible locations. The calculus buyers once used to determine their housing choice—the farther I drive the more square feet I can purchase—has given way to a more complex analysis. The relationship between increased cost of place—housing cost plus transportation burden—has become more evident in an era pushing toward \$4-a-gallon gasoline. More than just dollars and cents, people are rethinking the time spent in their cars as a virtual tax on their quality of life or family time.

In *Foreclosing the Dream*, William Lucy's 2010 chronicle of trends, demographic changes, and forecasts that can be derived from the current housing crisis, he writes, "Household spending on transportation averages 18 percent, but varies by location. Outer suburban residents average 25 percent of household income for transportation, compared with only 9 percent for households in compact development settings."

Concentric rings circling major urban centers can be used to illustrate measurable value losses based on distance from the core. Almost everyone has a friend or relative in the suburbs whose home value has been halved. As these homeowners consider future purchasing decisions, the safety or volatility of their investment is now another measure of value, perhaps more than granite countertops and that extra bedroom. Similarly, suburban office complexes, far from transit and centers of human activity, are some of the most distressed asset types, either because of increased vacancy rates or loss of asset value.

When the market recovers, it will be accompanied by a new paradigm of households and tenant values. While a core of starter and move-up families remains, it will be flanked by two ends of the demographic spectrum:

- new generation-Y buyers and renters who want the vibe, hipness, and quality of life that accompanies urban center and first-ring suburb locations or new urbanist centers; and
- empty nesters who now want to move back closer to the center of activity, culture, and education.

Value will not be measured in square feet, but in the number and range of activities accessible by foot within five minutes of one's front door. The WalkScore phenomenon-with calculations available at www.walkscore.com-and its increasing role in real estate listings is evidence of this new calculus of value.

New programs such as the U.S. Department of Housing and Urban Development's (HUD) tripartite Sustainable Communities Initiative are a radical approach by the federal government to promote collaboration among agencies and integrate into a holistic view formerly competing and destructive policies affecting transportation, land use, and the environment. The result will focus policy, intellectual power, and funds on making communities places where the whole is greater than the sum of its parts.

At the same time that policies are changing to support more responsible forms of development, government agencies are putting real money where their mouths are. In some progressive corners of the country, these agencies are going beyond just drafting policies in the hopes that the market will fall in line with their thinking. Instead they are bringing real, at-risk dollars to the table to help level the playing field between complex urban settings and path-of-least-resistance exurban sites.

California's Strategic Growth plan dedicates over \$1 billion of its \$2.5 billion budget to infill infrastructure and transit-oriented development. These monies are available to both nonprofit and for-profit developers to help balance the costs of complicated core development versus greenfield sprawl. The Bay Area's Metropolitan Transportation Commission is offering \$31 million in climate innovation grants for planning scalable transportation projects that can reduce greenhouse gas emissions in the region. And at the Urban Land Institute's annual Fall Meeting, the ULI Responsible Property Investing Council toured a number of innovative projects underway or completed in Washington, D.C.'s core. With the mayor's office providing a range of tools-including creative capital structure and matching predevelopment funding-developers are able to offset the increased costs and risks associated with responsible urban development.

Green certifications under the Leadership in Energy and Environmental Design (LEED) program progressed at a rate of nearly 1 million square feet (93,000 sq m) per day last year-an indicator that green building is gaining increased traction in the market. New tools such as the LEED for Existing Buildings Volume Program-simplifying certification of multiple buildings by an organization-also are helping portfolio managers improve existing building stock in greater numbers than ever before.

TIAA-CREF, as the owner of 43 million square feet (4 million sq m) of office buildings, as well as a large portfolio of other commercial and multifamily real estate assets, is one of America's largest institutional real estate investors. In 2007, the company's Global Real Estate group created a dedicated unit called Strategic Initiatives charged with implementing green strategies across the company's entire real estate portfolio. Since 2002, the firm has been an Environmental Protection Agency (EPA) Energy Star Partner, and was recognized by EPA in 2003 for mandating that its entire office portfolio be benchmarked through this program.

In conjunction with these efforts, and in response to growing demand among its clients for investments with environmental/social/governance initiatives, TIAA also formed a dedicated Socially Responsible Investment team in 2006, with separate corporate social real estate (CSRE) and new \$50 million green building technology partnership (GBTP) venture capital investment programs, managed by Cherie Santos-Wuest, director of global social and community investments. The CSRE portfolio strategy can be characterized as a triple-bottom-line strategy, in which portfolio investments endeavor to produce risk-adjusted market-rate returns; measurable social impact, including jobs, income, and community revitalization for low-income residents; and environmentally sustainable construction and practices across portfolio investments.

The dedicated CSRE strategy now totals over \$512 million in commitments. TIAA's history of socially responsible real estate investment began in 1985 with a primary focus on affordable housing. "Back then,

affordable housing was considered to be the sum total of socially responsible real estate investments," says Santos-Wuest. "Today, the basic attributes that make for sound real estate investment have evolved and expanded to include investments in workforce housing, transit-oriented and urban development, and sustainable development initiatives."

It is one thing to dedicate a portion of one's portfolio, or entire portfolio, to responsible real estate. But does it add value, or at least match the returns of investment real estate?

In their study "Income, Value, and Returns in Socially Responsible Office Properties," Gary Pivo and Jeffrey Fisher examined 1,200 office properties in the National Council of Real Estate Investment Fiduciaries (NCREIF) database-accounting for total market value of about \$100 billion-to determine whether elements now considered cornerstones of responsible real estate development added asset value. The study, published in the July/September *Journal of Real Estate Research*, found that with some exceptions, over the past ten years, properties that were Energy Star labeled, close to transit, and located in redevelopment areas "had net operating incomes, market values, price appreciation, and total returns that were higher or the same as conventional properties, with lower cap rates."

The real estate industry is at a powerful inflection point in this painful recession, but therein lies the opportunity. To harness the potential of this moment, the industry must be willing to work differently and fix the institutionalized impediments hampering broader adoption of responsible real estate as a core class. This moment presents a wonderful opportunity to retool the profession, reteach company teams, and expand the definition of value. If the industry more deeply embraces the potential of its collective skill set and its responsibility to society, it has the chance of a lifetime to become *the* profession that positively reshaped the built environment.

See *Six Recommendations for Making the Most of the Recession*

[<http://urbanland.uli.org/articles/2011/mar/heidsixrecession>] for changes in practices, the author states, that will lay the foundation for a more successful outcome when the market returns.



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Attachment I



URBANLAND

February 23, 2011

Planning Communities for 2020

By John Martin

At the bottom of each cycle, there are those who identify niche opportunities, imagine concepts, and innovate with communities and housing products that get people back into the market. As the industry emerges from the recent recession-and works to imagine what people want, can afford, and will buy and rent-it ponders this question: what will planned communities look like in the future?

What has changed in the master-planned community development industry and what has stayed the same?

Developers have learned much during the industry's past five decades: that it is a cyclical business, that the market becomes overheated in every cycle, that prices soar and peaks are reached, that demand and prices drop dramatically, and that the tyranny of the urgent obsesses the industry, and it suffers for years. During a market run-up, the true drivers of demand are disguised as the industry produces and sells to meet demand. Then, in the downturn, it become paralyzed and the recovery takes a long time.

Yet, at the bottom of each cycle, there are those who identify niche opportunities, imagine concepts, and innovate with communities and housing products that get people back into the market. As the industry emerges from the recent recession-and works to understand the drivers of demand and imagine what people want, can afford, and will buy and rent-what will planned communities look like in the future?

The first step in envisioning future communities is to identify how households will change in this decade and what it means for master-planned communities in 2020. For this forward look, I analyzed the September 2010 working paper "Updated 2010–2020 Household and New Home Demand Projection" by the Joint Center for Housing Studies (JCHS) at Harvard University. There will be over 10 million more households occupied by people age 55 to 74 at the end of this decade than there are now. Together, the two ten-year age groups from 25 to 44 are adding a total of only 1.9 million households in the next ten years, and there will be 2.3 million fewer households with people in the age group 45 to 54.

As generation Y-those age 14 to 31 in 2011 and 23 to 40 in 2020-grows older and forms new households, demand for family housing will increase. The question to consider is whether the industry should build communities for this market, whether these households will be absorbed into the single-family detached housing located in the planned communities built over the past five decades, or whether they will choose to live in infill locations closer to amenities and services. The dramatic change to acknowledge in this decade is

the loss of those nearly 2.3 million households age 45 to 54-the age at which people typically buy move-up housing and second homes.

An examination of the rise in the number of older households, plus the increase in single-person households and couples without children-which combined will grow by almost 9.5 million by the end of the decade-makes it is easy to see that demand for planned communities in the United States will be different than that previously experienced.

U.S. household growth by race/ethnicity is another guide to how communities should be planned in the future, with minorities projected to account for 70 percent of net household growth between 2010 and 2020.

What do these changes mean for the planning, design, development, and marketing of planned communities in the future? First, the industry must appeal to all age groups, household types, and racial/ethnic groups because communities will be more diverse and intergenerational. The definition of planned communities must therefore expand to include not only new developments with a variety of residential housing types, and the services and amenities to support them, but also existing communities making the transition to serve the needs of the changing population in existing infill and edge locations.

During the "Master-Planned Communities 2020: What Does the Future Look Like?" panel at the ULI Fall Meeting in October, Perry Reader, president of Crosland in Florida, said the original cornerstones of Celebration-a sense of place and community (both social design and desirable gathering places), education and lifelong learning, health and wellness, and technology-are a great place to start in the reinvention of master-planned communities for 2020. Those cornerstones are as appropriate today as they were in 1996 when the industry looked out 15 years to 2010. Since that time, developers have learned the importance of the following:

- Enrolling and partnering with the public sector, the existing community, and environmentalists in the planning process.
- Understanding how future markets will differ from those of today and how people will want-as well as need-to live.
- Being environmentally sensitive and adopting the principles of sustainable development and green building, as well as the methods to implement them.
- Identifying future niche markets and aligning residential products, amenities, and services to address what people want and need as they enter different life stages with changed lifestyles.
- Considering the entire existing community as a potential support system to serve small-scale projects that cannot provide needed amenities and services as a part of new development.
- Planning neighborhoods based on the principles of neighborhood crafting, in which aesthetically pleasing places are created in consideration of homes and commercial space being part of a whole rather than individual structures.
- Designing more compact and affordable homes that integrate seamlessly into neighborhood and village fabrics, with plan interiors that expand to incorporate privacy and outdoor living spaces.
- Creating walkable community environments that feature safety, connectivity, security, public realms, and amenities that are shared by all residents.
- Structuring a diversified product program that addresses consumer segmentation so a wide variety of markets are served.
- Delivering on all promises made through marketing and sales.
- Having a compelling vision and big idea that answers the developer's question, what do we want to create?-a vision that inspires everyone involved to create places that enrich and enhance all who live, work, and play there.

The panel drew several conclusions during its session on the future of the market, each of which needs to be addressed by the industry as follows:

- There will be more renters-both of single-family homes and other kinds of dwelling units-so developers need to figure out how to take advantage of the shift.
- Niche marketing will increase dramatically. Numerous niches exist that the industry has not even begun to understand, and each will have its own nuances. Developers need to consider how they can make money by satisfying one or several of these niches. For example, master-planned communities have not done a good job of dealing with the aging population and how to design for it.

- Ethnic diversity will increase, which will make the industry's current understanding of this niche seem trivial. People in the industry think they understand "the Asian market" or "the Hispanic market," but, in fact, the Asian market is 50 different markets, as is the Hispanic market. Ten years from now, the United States will be even more of a melting pot. Developers need to consider the different needs of the first, the second, and the third generation of immigrants when developing product.
- Fewer people will be commuting by car to work five days a week. Developers need to think about how this is going to affect master-planned communities, houses, apartments, and offices.
- The women's market will require particular attention. It is widely acknowledged that women make the decisions about where they and their families live. And the power they hold in the market is going to grow as their rising wages increase their purchasing power.
- There will be more of a merger between product and services, meaning the merger of a place to live and facilities that provide desired services, be it health care, education, technology, or a sense of community. Developers need to determine which services to provide, how to merge them with the housing product itself, and how to turn that combination into an income stream long term.
- The amount of mixed-use space in master-planned communities will increase because it will boost absorption in both large and small planned communities, allowing the developer to exit sooner. Mixed uses also help create the cool places where so many people want to live. Some mixed use has the potential for value creation, allowing developers to get more money from the pieces in a planned community. For example, people will pay more for the right kind of housing if a restaurant is next door, or to live in a housing project if a daycare center and a school are nearby.
- There will be more global partners and global players in the U.S. master-planned community market. Historically, there have been few—mainly homebuilders and developers from the U.K. or Canada. However, developers need to consider what the impact will be in ten years when the U.S. market has more global players.
- There will be more business model changes as developers work with their homebuilder partners, apartment partners, not-for-profits, churches, businesses, and other partners. The relationships will change and new ways to finance projects will be found. Financing will be a problem, so new relationships with builders and others are going to be important.
- The way planned communities are created is going to change, with developers getting customers, cities, and communities engaged in the development process a lot earlier.
- The industry—which in a lot of ways is prehistoric and dinosaur-like—is going to mature, with developers becoming more sophisticated, and customers benefiting because of it.
- The environment will become more and more important. In 2020, in a world where gasoline may cost \$10 per gallon, changes are coming in how communities are created, how they are planned, and how they handle energy use.
- Severe water shortages are on their way, so dramatic changes are coming in the way water is used in communities ten years from now. Developers should get ahead of the curve now to try to understand the implications of this change.
- The shift to a 24/7 world has implications for a master-planned community where people are active all day and night. Amenities will need to open around the clock, facilities will need to be lighted at night, and safety and security will have to be provided.
- More people will be moving back to the cities because that is where the jobs are, but some companies will be moving away from cities in order to expand.
- The industry is going to be more socially responsible, both for the sake of profits and because it is the right thing to do.
- Planned communities will be denser, becoming taller and taking different shapes and sizes. Consumer segmentation by community developers and homebuilders in planned communities will increase. Segmentation by builders will also increase, with more large, public, national builders entering the market, as well as small and regional builders that can do niche products.
- There will be more branded communities as customers look for trust and reliability. Life stage marketing will increase as developers better understand how to own the relationship with the customer. Because developers work hard to obtain customers, once people move into communities it only makes sense for developers to know what they are going to want five, ten, or 20 years down the road.
- Developers will have to build more flexibility into communities because when 2020 arrives, they will need to be thinking about 2030 and 2040. Developers must ask how their buildings can change over years and decades to have a longer lifespan for customers.

These are exciting times for everyone in the master-planned community business. The real estate industry needs to take these new ideas and look forward. But it also needs to look backward to some of the best planned communities that were built in this country before the Great Depression of the 1930s. Great cities existed 90 to 120 years ago to look back on and learn from as the industry moves forward.



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Housing in America

THE NEXT DECADE

John McIlwain



About the Urban Land Institute

The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. ULI is committed to

- Bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs;
- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem solving;
- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both built and natural environments;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

Established in 1936, the Institute today has more than 30,000 members worldwide, representing the entire spectrum of the land use and development disciplines. ULI relies heavily on the experience of its members. It is through member involvement and information resources that ULI has been able to set standards of excellence in development practice. The Institute has long been recognized as one of the world's most respected and widely quoted sources of objective information on urban planning, growth, and development.

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Author's Note

Many aspects of the housing market and legislation discussed in the first two sections of this report continue to evolve rapidly. Accordingly, this report addresses the housing market as of March 2010.

Introduction and Executive Summary

The housing markets in the United States are at an inflection point. As the economy recovers from its current turmoil, markets will stabilize, but the old “normal” will not return. Once-nascent trends will emerge as major drivers, creating new markets in new places. Those who fail to understand these new trends will miss opportunities or find themselves building what is no longer in demand.

The first part of this report reviews the current state of the market. Home prices are stabilizing and even beginning to rise in many parts of the country, but overwhelming challenges remain. National housing prices will fall another 10 percent in 2010, until they stabilize in the second half of the year or in early 2011. This projection assumes that job losses come to an end and unemployment begins to decline during 2010.

The biggest challenge to the housing markets today, besides unemployment, is the growing number of homes with mortgages that are “underwater”—that is, with principal balances higher than the current values of the homes that secure them. By the end of 2010, some 40 percent of all homes with mortgages are predicted to be underwater.

The second part of this report looks at the need to reestablish the private-market residential finance system. Today, virtually all housing finance is supported by the federal government through the U.S. Treasury Department, the Federal Reserve, Fannie Mae, Freddie Mac, and the Federal Housing Administration (FHA). To restore the private-market system, Fannie Mae and Freddie Mac need to be reformed or replaced, and the rules governing how mortgages are originated and securitized need to be changed in order for investors to return in large numbers.

Part three looks at long-term trends that are emerging. After the recession, demand for housing will increase. Four demographic groups will drive housing markets for the next decade, each of which is large and facing a unique set of challenges. They are:

- Older baby boomers, who will constitute a senior population unprecedented in size;
- Younger baby boomers, many of whom will be unable to sell their current suburban homes to move to new jobs;
- Generation Y, which will be renting housing far longer than did past generations; and
- Immigrants and their children, who will want to move to the suburbs but may find housing there too expensive even after the current drop in prices.

The population of the United States is projected to grow rapidly during the coming decade. This will produce strong demand for housing once the economy recovers and unemployment drops. However, it is probable that the homeownership rate, currently 67 percent, will fall to levels not seen in two decades. This will produce a strong market for rental housing in the years ahead.

Workforce housing will remain a challenge. Many in the moderate-income workforce will find their incomes constrained and housing in the communities where they work out of their reach despite the current market declines. They will look to the outer suburbs for housing, which is where the least-expensive homes will be found, but the cost

in time and money of long commutes will eliminate any savings. Many who live there will do so not by choice but by necessity.

The movement toward sustainable development will continue in the decade ahead. Interest in energy-efficient, healthy, and environmentally friendly homes will become a dominant trend, given volatile energy prices and the evolution of local, state, and federal building codes. By the end of the decade or shortly thereafter, virtually all new homes will produce most if not all of the energy they use, and the “net-zero-energy” home will be the standard.

The age of suburbanization and growing homeownership is over. The demographics of the next decade indicate that the market for urban living will continue to grow. There will be regional winners and losers as markets recover, and the strongest markets will be found in places that provide a vibrant 24/7 lifestyle. Many central cities will experience strong demand for housing. People who want an urban lifestyle but either do not want to live in a “big city” or cannot afford to will look to live in the many suburban town centers that have been emerging in metropolitan regions across the country.

Shifts in markets present opportunities for those who understand the trends. Over time, a new mode of metropolitan development will emerge, presenting opportunities and stiff challenges. ULI will play an important role in identifying the new markets and working with all levels of government, facilitating development that responds to the new markets and is sustainable in a world challenged by a changing climate and energy demand.

The Next Two to Three Years: Watch Out for Wishful Thinking

The housing markets in the United States are in a state of turmoil not seen in 80 years. Foreclosure rates are at historic highs. Home prices have fallen dramatically and, while stabilizing in some places, are still falling in others. Despite some promising signs, it will take another year or two for all the problems the markets face to resolve themselves, if the economy continues to recover through 2010 and 2011. Reflecting this uncertainty, Moody’s Economy.com forecasts that home prices will fall another 10 percent in 2010 before they stabilize, bringing the decline close to 40 percent from the peak in 2006. Much of this continued drop can be expected in those states already hardest hit.

Home prices had fallen 28 percent by the end of 2009 from their July 2006 peak, according to the S&P/Case-Shiller Home Price Index. By some estimates, U.S. homeowners have lost \$6 trillion in value since the market’s peak. Much of the decline in housing prices, along with many of the foreclosures, occurred in five states—California, Nevada, Arizona, Michigan, and Florida; markets in many other states have experienced only modest declines, and some markets are rising.

There was some encouraging news at the end of 2009: the Case-Schiller Index rose during the last two quarters of that year and the rate of new foreclosures declined. There was an increase in sales of new and existing homes, leading to a decline in the

inventory of unsold homes to around a seven-month supply by the end of the year. The recovery of the stock market, predictions that the recession may be ending, and reduced job losses all suggest that the worst might be over.

However, the situation remains complex and troubling in 2010. Home sales dropped unexpectedly at the start of 2010, showing how fragile these markets remain. As discussed below, the current slowdown in foreclosures may be temporary and there is reason to be concerned about the level of ongoing government support for housing. There was an unprecedented level of government intervention in the housing markets during 2009, such as the homebuyer tax credit, for example, but much of it is scheduled to end in spring 2010.

FIGURE 1: Decline in Median Single-Family Home Prices in Selected U.S. Metro Areas, 2007–2009

Phoenix	-44.6%
Los Angeles	-41.8%
Miami	-40.6%
San Francisco	-33.1%
Atlanta	-24.8%
Washington, D.C.	-24.6%
Chicago	-24.0%
U.S. Average	-18.4%
Minneapolis	-17.9%
New York City	-17.2%
Seattle	-16.9%
Boston	-12.0%
Denver	-6.6%
Houston	5.3%

Source: National Association of Realtors, 2010.

Furthermore, the decline in home prices and sales has occurred during a time when mortgage interest rates have been at 50-year lows. Most analysts predict they will remain low for 2010, though the scheduled end in March 2010 of the Fed's program to purchase \$1.25 trillion in mortgage securities triggers a concern that rates may start to rise. If Fannie Mae and Freddie Mac can pick up at least some of the slack by increasing their purchases of mortgages, such an increase in mortgage rates may be modest and not destabilize the housing markets. To enable an increase in purchases by the government-sponsored enterprises (GSEs), the administration in December 2009 increased the limits of federal assistance that can be provided to Fannie Mae and Freddie Mac and eased restrictions on the size of their mortgage portfolios.

The Continuing Rise in Foreclosures

The biggest obstacle to stabilizing home prices is the threat of a new wave of foreclosures. In 2008, more than 1.7 million homes were foreclosed on or lost by short sale or deed in lieu. Another 2 million were lost in 2009, and Moody's Economy.com projects that 2.4 million will be lost in 2010, an estimate that may turn out to be conservative.

One in seven households with a mortgage was either in foreclosure or in default at the end of September 2009. The default rate was stable at the end of 2009, due largely to the government's Home Affordable Modification Program (HAMP), but still close to 100 basis points above the 2008 rate and eight times as high as in early 2006.

The problem is that HAMP has produced few permanently modified mortgages. Of the 759,000 borrowers signed up for trial modifications through December 2009, only 31,000 had loans that were permanently modified—less than 5 percent of those eligible. HAMP is deferring foreclosures but may not help homeowners avoid them. Data from earlier modification programs also suggest that half or more of permanently modified mortgages default within a year, though the HAMP experience may be better.

Unemployment is one of the two leading indicators of a mortgage default. While short-term unemployment often does not lead to foreclosure, what is troubling in the current situation is that long-term unemployment has risen to levels not seen in decades. It is this long-term unemployment that none of the current mortgage-modification programs can adequately address, as can be seen in the combination of high levels of unemployment and foreclosures and a severe drop in housing prices in places like Michigan, among others. The other leading indicator is a home being "underwater"—that is, having a mortgage with a loan balance higher than the value of the underlying home.

FIGURE 2: Unemployment Trends in Selected U.S. Metro Areas

	Percentage Change in Number of Jobs, 2007–2009	Unemployment Rate
Washington, D.C.	0.4%	6.1%
Houston	-0.4%	8.2%
New York City	-1.1%	8.9%
Boston	-1.3%	7.7%
Seattle	-3.0%	8.8%
Denver	-3.3%	6.8%
Minneapolis	-3.7%	7.0%
Miami	-4.2%	10.6%
San Francisco	-4.5%	10.3%
Los Angeles	-5.1%	11.5%
Chicago	-5.4%	10.3%
Atlanta	-6.9%	10.1%
Phoenix	-9.6%	8.1%

Source: U.S. Bureau of Labor Statistics, 2009.

Underwater Homes: The Sleeping Giant

The number of underwater homes is the sleeping giant of the housing crisis. In 2005, 48.4 million homes had a mortgage. Estimates of how many of those homes are currently underwater vary from 12 million to 16 million—over one in four. Deutsche Bank Securities projects that 21 million U.S. households will have mortgages underwater by the end of 2010, meaning that over 40 percent of mortgaged homes would be at risk, including homes with prime mortgages, as well as those with Alt-A and subprime mortgages. This is a situation without precedent in U.S. history.

Not all underwater homeowners will walk away from their homes; many will continue to pay their mortgages because they can afford to and expect the value of their homes to rise again, or, perhaps, just because they love their homes and want to continue living there. Nevertheless, if only one in five underwater homeowners decides to walk away from his or her home, it would double mortgage defaults over 2009.

Underwater homes also affect the normal working of housing markets. They limit the ability of the unemployed to sell their homes in order to move for a new job, constraining labor market mobility and economic recovery. They stall the move-up market as well because families are unable to sell their homes to buy the next one, and it can lock older retirees into the suburbs, limiting their ability to move, whether to the Sunbelt, to the city, or to smaller homes in nearby suburban town centers.

FIGURE 3: Foreclosure Rate Trends in Top U.S. Metro Areas, 2008–2009

	Properties with Filings	Percentage of Housing Units	Rate of Foreclosure	Percentage Change from Q3 2008
Phoenix	40,566	2.43	1 in 41	18.6
Miami	53,710	2.23	1 in 45	34.7
Los Angeles	69,403	1.58	1 in 63	32.4
San Francisco	22,876	1.35	1 in 74	22.1
Atlanta	24,787	1.17	1 in 85	13.9
Washington, D.C.	19,318	0.91	1 in 110	9.3
Denver	9,235	0.89	1 in 113	-1.6
Chicago	33,065	0.88	1 in 113	28.5
Minneapolis	9,767	0.74	1 in 136	98.7
Seattle	6,495	0.46	1 in 217	37.8
Boston	7,962	0.44	1 in 229	19.5
Houston	8,482	0.39	1 in 256	-8.1
New York City	24,715	0.33	1 in 299	14.7
U.S. Total	937,840	0.73	1 in 136	22.5

Source: RealtyTrac, 2009.

It is hard for any mortgage-modification program to respond to significantly underwater homes. This would require that principal balances of millions of mortgages be substantially reduced at a cost of billions of dollars. This is unlikely to happen despite a new administration program to encourage this. In fact, there is no politically feasible way to help the vast majority of those who are unemployed or who have underwater homes to avoid foreclosure.

Therefore, it is probable that foreclosures will rise and prices will continue to fall during 2010. Given the size of the challenges facing the market, as well as high levels of ongoing unemployment in 2010 and projections of slow job growth in 2011 and 2012, the housing markets are likely to struggle for the next couple of years. Some markets will regain their health, but caution should be the industry watchword regarding home values in many parts of the country for the next few years.

Making the Transition to the Future: Reopening the Private Capital Markets

Virtually all funds supplied to the residential market during 2010 will continue to be the direct result of federal action, as was the case during 2009. All new mortgages in early 2010 were being bought or securitized by the federal government, and private investors have completely exited the market unless there is a federal guarantee. What was once considered the world's most efficient housing finance system, attracting trillions of dollars of investment from around the world, is now shunned by all, both here and abroad.

Bringing private investment back is essential to restoration of a healthy housing finance system. But how and when this will happen is not clear. The economy must improve and jobs return in order for foreclosures to decline and housing prices to stabilize nationally. The infrastructure of housing finance also needs reform; Fannie Mae and Freddie Mac need to be restored or replaced; and the mortgage system needs to be reworked in order to ensure sound underwriting, restored predictability, and transparency.

Efforts in these areas are at an early stage, and it is too early to predict what the final outcome will be. The result, however, will have a fundamental impact on housing markets for years to come. The cost and availability of debt will affect the ability of millions to buy homes or to afford to rent in new buildings, most especially members of generation Y, who normally would be forming their first households in the years ahead.

The Future of Fannie Mae and Freddie Mac

Fannie Mae and Freddie Mac have been in federal conservatorship since summer 2008. They own or guarantee half of the nation's \$11 trillion in home mortgages and together with the Federal Housing Administration are responsible for backing nine mortgages in ten made today, far higher than the three in ten they backed historically.

The government had invested \$112 billion in the companies by the end of 2009 to keep them functioning and has committed to double that to \$200 billion. This allowed the companies to generate \$1.3 trillion in single-family mortgage-backed securities (MBS) in 2009, up 39 percent from 2008. Their single-family portfolios have continued to decline in quality: during the quarter ended November 30, 2009, loans in any stage of delinquency increased to 7.6 percent of their combined portfolios. Most of these delinquencies have been in their single-family portfolios; their multifamily portfolios continue to perform well.

The administration said it would offer a proposal for restructuring Fannie Mae and Freddie Mac in February 2010, but failed to do so; it now says it will not present a proposal until 2011, at the earliest. Thus, little is known about what the administration is thinking. However, it is unlikely that legislation reforming the companies will be enacted in 2010, an election year with a shortened and already crowded legislative agenda. Reforming Fannie and Freddie will be extremely controversial.

The Treasury Department announced in December 2009 that it would continue to provide capital as needed to the companies for the next three years to assure investors of federal backing and enable the companies to continue actively supporting housing markets.

When the companies were placed in conservatorship, they were required to begin reducing the size of their portfolios in 2010. In December 2009, Treasury relaxed this requirement. This will allow the companies to continue buying mortgages, which is especially important if the Fed's program of buying mortgage securities ends as scheduled in spring 2010.

There is little reason for the administration to push for reform of the companies at this time. The federal government is now their conservator, regulator, and primary investor. As such, it is able to use the companies as a virtual federal agency, working with FHA, to keep the housing markets liquid and support the administration's mortgage modification efforts. Yet the companies remain "independent" entities because of the technicalities of the conservatorship law, so their liabilities remain off the federal balance sheet.

The time to reform or replace the companies is not until the housing markets recover and no longer need such active federal support. Proposals have ranged from fully privatizing them to making them federal agencies; neither alternative is likely. If they become federal agencies, their liabilities are added to an already swelling federal debt, a sensitive issue these days. Fully privatizing them, on the other hand, raises the risk that there will be no way the federal government can effectively maintain credit flows to the housing markets during credit crises, which seem to occur with annoying regularity once a decade. Housing is too large a part of the U.S. economy and too politically sensitive for the government not to have effective tools to support it when needed.

Nor is it likely that they will exit conservatorship unchanged. The old model is widely viewed as flawed, given the conflicting incentives of maximizing stockholder value and providing affordable mortgages to moderate- and middle-income Americans.

Many proposals walk the line between privatization and turning the companies into government agencies. The Center for American Progress, a think tank with close ties to the administration, has made a proposal that the administration is expected to study closely. It calls for the creation of a number of government-chartered firms, called chartered MBS issuers, or CMLs, which would finance certain types of home loans by selling securities guaranteed by the government; the types of loans eligible would be determined by federal regulators.

CMLs would be privately owned, but regulators would limit their profitability and fees would be charged to cover the risk to the government. The government would set risk standards for both the mortgage securities issued by CMLs and those issued by private entities. CMLs would have to support affordable rental housing and could hold only limited amounts of mortgages and related securities.

Suggesting that the obligations of CMLs be federally guaranteed is problematic. This would mean that their liabilities would be part of the federal debt and subject to annual appropriation, as is the case today with FHA. This would inevitably limit their activities and the amount of housing credit they could supply to the sectors of the housing market open to them; in effect, they would become mini-FHAs.

The proposal that the government regulate the private mortgage securitization market as well as securities issued by CMLs will be very controversial. More federal oversight of the private mortgage market is needed, and there is legislation currently in the U.S. Congress to this effect. Many in the industry, however, are strongly opposed to this.

This proposal is only one of many offered, and several include many of the same ideas. The final nature of reform will not be known for several years.

Fannie Mae and Freddie Mac have always stirred contentious debate in Congress, and at present there is no consensus as to whether the two entities should continue to exist in some form or be replaced. The debate on their future, and how the housing finance system for the United States should be reconstructed, will be complex and likely will disrupt housing markets. For this reason, this should be a period of quiet consideration of alternatives and efforts to build as much consensus as possible. The real debates should wait until the markets have more stability and the economy more strength. In the meantime, it will be best that Fannie and Freddie remain in conservatorship and used aggressively by the administration to do what they can to support housing markets.

Reforming the Mortgage Origination and Securitization Process

Reestablishing a robust private mortgage market will require both strong fundamentals and a reformed mortgage origination and securitization structure that eliminates the major abuses of the past years. The incentives among mortgage originators, securitizers, and rating agencies need to be aligned. One way of doing this is by requiring anyone

originating mortgages and then selling or securitizing them to retain a portion of the risk (or “skin in the game”). This should apply as well to those creating collateralized debt obligations (CDOs) or the like.

H.R. 4173, the Wall Street Reform and Consumer Protection Act of 2009, voted out of the House on December 11, 2009, on a largely party-line vote, is one possible approach to this kind of reform. Section 1502 would require regulators to define which loans are considered to have an appropriate level of credit risk, and what constitutes sound credit underwriting and due diligence. Originators of loans sold and/or securitized where these standards were not met and where a third party did not take a first-loss position generally would be required to retain 5 percent of the risk. The fate of these provisions or ones similar to them is now up to the Senate, which is crafting its own financial regulatory bill. Chances of final passage of this legislation are uncertain.

If this or similar legislation does pass, it is likely that most mortgage credit will flow largely into the types of loans deemed sound by regulators; originators and securitizers are unlikely to be willing to retain much, if any, of the risk and thereby add to their liabilities and required capital. The result could reduce the volume of mortgage securities in the market and constrain the flow of capital into housing. Some constraint on this flow would be beneficial because one cause of the housing crisis was a flood of too much cheap capital. Overly constraining capital flows to housing, however, will raise the price of capital and thus the cost of housing. This in turn will reduce housing affordability, especially for lower- and moderate-income Americans. Unfortunately, it is hard to predict how much legislation such as that proposed would reduce the amount of capital available for housing or raise its price, nor is there agreement on the right amount of capital and the right price needed to maintain robust but stable housing markets.

In short, as necessary as reform of Fannie Mae and Freddie Mac is, and as much as regulatory improvements are needed to restore confidence in the American housing finance system among investors here and abroad, these changes will alter the amount and price of capital for the housing markets, affecting who can obtain mortgages and at what prices. This, in turn, will affect housing markets for better or worse for decades to come.

The Longer Term: Expect the Unexpected

Early signs of new trends in U.S. housing markets have been present for years now. These trends will become stronger following the recession and affect where people live, whether they own or rent their homes, and the size and style of the homes they choose. These choices, whether made by desire or necessity, will be very different from those made by people over the years since World War II, the period of the great suburbanization of America. The coming decades will be the time of the great reurbanization as 24/7 central cities grow and suburbs around the country are redeveloped with new or revived walkable suburban town centers.

As stated in *The State of the Nation's Housing 2009*, an in-depth overview of trends in the national housing markets published annually by the Harvard University Joint Center for Housing Studies:

The massive shock to housing markets has raised questions about the future strength of demand. Although demographic trends provide a solid underpinning for the long run, market conditions over the next 5–10 years will surely have an impact. A deep, prolonged recession would likely suppress immigration to levels that are never fully made up. Moreover, such conditions might even lead to enduring changes in household formation behavior.

(The State of the Nation's Housing 2009, Joint Center for Housing Studies of Harvard University [Harvard Joint Center], page 4.)

Andrew Grove, cofounder of Intel, wrote in the preface of his 1999 book *Only the Paranoid Survive*, “Sooner or later, something fundamental in your business world will change.” He continued:

[S]trategic inflection points do not always lead to disaster. When the way business is being conducted changes, it creates opportunities for players who are adept at operating in the new way. This can apply to newcomers or to incumbents, for whom a strategic inflection point may mean an opportunity for a new period of growth.

The housing markets in the United States are at such an inflection point and will not be returning to the old “normal.” In the years ahead, a fundamentally new “normal” will emerge, based on the trends and drivers discussed below.

Demographics as Destiny

Metropolitan growth and decline are driven by demographics. Globally, not only is more than half the population of the world now living in urban areas, but also all future population growth is projected to occur in urbanized areas. In developing countries, the impact is enormous, with over 1 billion people currently living in urban slums of the developing world, a number that is growing rapidly.

The United States has the third-largest population in the world and is adding more people each year than all but six other countries; if current trends continue, the population of the United States will rise to 438 million in 2050 from 308 million today. Of that increase, 82 percent will be attributable to immigrants arriving between 2005 and 2050 and their U.S.-born descendants, according to the Pew Research Center. During this period the non-Hispanic white population, now a majority, will become the largest minority (47 percent) as its numbers increase more slowly than those of other racial and ethnic groups.

The four major demographic waves in the United States to watch are:

- The aging baby boomers, the oldest of whom are now in their mid-60s.
- The younger baby boomers in their late 40s and early 50s.

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- The children of the baby boomers, variously called generation Y, the millennials, the next generation, the net generation, or the echo boomers—a group that is still growing through immigration. Together with the baby boomers, they account for over half of the U.S. population.
 - Immigrants, their children, and grandchildren, whose numbers are growing more rapidly than “native-born” households.

Older baby boomers. There are 78 million baby boomers, the oldest of whom will turn 65 in 2011. From then on, the population of seniors is projected to grow at a faster rate than the total population of the United States.

The boomers are really two cohorts—the older group, age 55 to 64; and the younger group, age 46 to 54, now in or entering what should be their prime earning years. Between these two, the younger group is larger, accounting for two-thirds of the cohort; only the older one-third is approaching retirement this decade.

The boomers have redefined every age they have entered, and the older ones will do so again. They do not yet see themselves as aging; “60 is the new 50” is their view. Some have begun to retire, but most will push back full retirement for years both because they are working at jobs they enjoy and because they need to rebuild their retirement funds.

In the coming decade, fewer of the older boomers will be moving. Those who have not yet sold their suburban homes find themselves trapped as falling home prices have left their homes worth less than the mortgage—or mortgages—on them. It will take years before home prices rise sufficiently to restore their lost equity. Those who can move are no longer flocking to the Sunbelt, choosing instead to move closer to their children and, more important, their grandchildren.

This older baby boomer cohort is healthier and more energetic than its parents. The move into retirement and life care communities will be deferred for a decade or more unless these housing forms adapt to the desires of this new group of young seniors. As a result, the market for housing for seniors will grow more slowly than expected.

This older cohort is entering an urban phase: a 2009 survey by real estate advisory firm RCLCO found that 75 percent of retiring boomers said that they want to live in mixed-age and mixed-use communities—that is, in urban settings. Not all will want to move to the central city, so walkable, urbanized suburban town centers will see an influx of aging boomers.

This trend can be seen in the early success of urbanizing town centers such as Bethesda, Maryland; Reston Town Center in Reston, Virginia; and White Plains, New York. Many of these projects are now stalled due to the collapse of the condominium and resale market, but many of those boomers who can sell their homes will move to these centers, helping them thrive during the decade ahead.



Younger baby boomers. The younger cohort of boomers is facing very different challenges. They have decades before they need to consider retiring, and their children are likely to be still at home, either because they have not left yet or because they have returned after leaving. Many find their suburban homes now underwater, and even those not underwater will be hard to sell. The older boomers sold their suburban homes to the larger population of younger boomers looking to move up; today, in contrast, the move-up market is much smaller because the younger boomers have members of the much smaller generation X, now in their late 30s to mid-40s, to sell to.

Generation X is also made up of smaller households, is a more urban generation, and is facing distinct economic challenges. The Harvard Joint Center reports:

Real median household incomes in all age groups under 55 have not increased since 2000. In fact, for the first time in at least 40 years, there is a chance that the real median household income for these age groups will be lower at the end of the decade than at the start. Moreover, the severity of today's economic contraction could hold down incomes and wealth for years to come.

(The State of the Nation's Housing 2009, page 12.)

This will suppress prices for suburban homes for years to come, making it hard for the young boomers to move. The reduced prices of these homes and their larger size, however, make them an attractive option for larger immigrant families, though only if prices are low enough to be affordable for this population, which generally has more modest incomes. As the Harvard Joint Center notes:

The housing now occupied by many older white baby boomers will be well suited to the needs of younger and generally larger minority households. With their lower incomes, however, minority households may be unable to afford these homes when they come onto the market. Indeed, the ongoing adjustment in house prices across the country may help improve affordability in the short term, but it is unlikely to bridge the gap completely.

(The State of the Nation's Housing 2009, page 15.)

The younger boomers are facing flat incomes, lost equity in their homes, and a smaller group of move-up buyers. The market for large suburban homes will be weak over the coming decade, and it is likely that there are already enough large suburban homes to meet the market demand for the coming decade despite the growing U.S. population.

The second-home market also will be weak in the coming decade. The younger boomers are at the prime stage for buying a second home, but most will be unable to afford one because of diminished earnings, tight credit, and the lack of equity in their first home on which to draw for a downpayment on their second. Only those second-home markets that appeal to the wealthiest will remain strong, though there may be opportunities for lower-cost but well-designed smaller second homes.

Generation Y. There is no precise definition of generation Y, but generally it is made up of people in their late teens to early 30s and accounts for some 83 million people. It is distinct in many ways from previous generations. A growing number of studies report on this group as it becomes the dominant force in the economy. These studies, ULI panels, and personal experience reveal a picture of a generation that is not revolutionary, but that nevertheless will produce radical evolutionary changes. For instance, there are now more women in colleges and universities than men for the first time in U.S. history, and women are earning 60 percent of the master's degrees. Women are on the way to dominating the workforce.

Stephanie Siejka of RCLCO speaks of WINKs—"Gen-Y women with income and no kids (and typically no spouse or partner, for that matter)." Many more women in this generation are living alone than are their male counterparts.

This is the generation of the online social network and "herding"—the ability to meet at a moment's notice at a social gathering place, such as hip local coffeehouses, bars, or other "third places." They value community highly, and ideas, information (not always correct but often corrected by the widespread online network), and opinions flash among them at speeds that leave older generations unable to keep up. Reputations are made and lost in weeks, and good reports can lead to a sudden surge in business just as fast as a bad report can kill a once-promising enterprise. They move and think quickly and multitask easily, and are also committed to a healthy work/life balance: they will work hard, but not at the expense of time with family and friends.

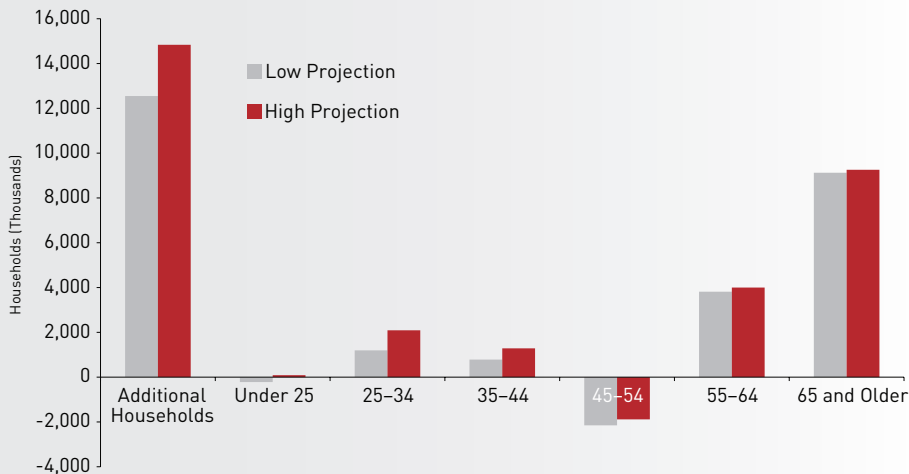
Many are active and socially responsible, and they volunteer in large numbers, looking for ways, especially online, to improve the world. They are acutely aware that they will live through unprecedented changes in the climate and will be affected in unpredictable ways. They also know they are the last generation to grow up with endless supplies of cheap carbon-based fuels. They can expect to live well into their 90s, and they will see a dramatically different world at the end of this century than the one they were born into. They are the greenest generation yet.

They value diversity and do not see differences in race or ethnicity as barriers to be overcome; what older generations think of as barriers they do not even notice. Instead, they cluster around educational levels and cultural affinities, which are frequently created by a mix of traditions from other cultures. Consider this the generation of fusion.

It is an unpredictable generation. They have been more immediately affected by the current recession than other generations. Brought up as the "credit card kids," they now find that after college and graduate school there are few jobs and large school loans to pay off. Yet generation Y remains an "aspirational generation," as one member put it, saying, "We want to live differently than our parents and believe we can have what we see on TV."

This generation will be income constrained. The U.S. Census Bureau reports that during the past decade, incomes of those 25 to 34 years old have fallen 12 percent for men and 3 percent for women. This is unlikely to change in the coming decade and will result in most of generation Y living more modest lives than their parents with little money for housing.

FIGURE 4: Projected Shift in Household Numbers, by Age Group, from 2010 to 2020



Source: Harvard Joint Center for Housing Studies, *The State of the Nation's Housing 2009*.

Household formation is suppressed today by high unemployment. Though generation Y is at the traditional age of the highest rate of new household formation, that rate in the United States has fallen by more than half in the past two years. A primary reason for this is that the trend, begun during the 1990s, of people in their 20s returning home to live with their parents has increased due to the recession. Others in generation Y have doubled and tripled up on housing or gone back to school to weather the storm. Once there are jobs for them again, members of generation Y will move into the housing market in large numbers, creating new demand.

As figure 4 shows, even though generation Y is a larger cohort than the baby boomers, it will have a smaller impact on housing markets than did the boomers. This is because the difference in size between generation Y and the boomers and generation X is much less than the difference between the baby boomers and all generations that preceded them. The baby boomers dwarfed all previous generations in numbers. As members of generation Y form households, they will add to demand for housing—reversing the decline caused by generation X—but not to the extent that the baby boomers did. They are also forming households later than previous generations, further reducing their impact on housing demand. Meanwhile, as the older boomers age and move into the 65-to-75 age bracket, they will replace the much smaller “greatest generation” that precedes them.

Generation Y’s attitudes toward homeownership have been changed by the housing crisis and the recession. The number of people trapped by underwater homes that cannot be sold and the millions of foreclosures are tempering their interest in buying their own homes, and they will be renters by necessity and by choice rather than homeowners for years ahead.

They have to pay off school loans, and the “bank of dad” and “mommy money” have disappeared as their parents struggle to rebuild their retirement portfolios. They have lost the confidence of previous generations that homeownership is a way to develop wealth. Instead, they believe that they will have to save for retirement, especially since they have a low level of confidence in the future viability of Social Security.

They say they want to live in urban areas: a 2008 survey by RCLCO found that 77 percent of generation Y reports wanting to live in an urban core, not in the suburbs where they grew up. They want to be close to each other, to services, to places to meet, and to work, and they would rather walk than drive. They say they are willing to live in a smaller space in order to be able to afford this lifestyle.

The ability of most of this generation to afford urban living will be limited, however, and once they have school-aged children, they will look for good public schools. To find them, they will either work to improve the schools in the cities in which they live, which will make a great contribution to those cities, or they will move to the suburbs, as generations before them have. However, they may move to the older, closer-in, and less-expensive suburbs or to compact suburban town centers rather than to low-density culs-de-sac of the outer suburbs.

To get members of generation Y to buy their first home, builders will need to offer starter homes in large numbers at low prices—meaning homes that are small, simple, and on small lots, but that are well designed and built to green energy standards. This is hard to do, except in the outer-edge suburbs. For this reason, many young families will look to live in the older, close-in suburbs where prices have fallen or be forced to move to the outer-edge suburbs where home prices are lowest, regardless of the higher cost in dollars and time of long commutes.

This will be a big change from the past, when people moved to the outer suburbs by choice in order to find a newer, bigger home. Over the coming decade, many of those who move to the outer suburbs will do so reluctantly and will miss the sense of community and the amenities they value. In addition, their suburban homes will appreciate in value slowly, if at all, because their major appeal will be their low price.

This provides a major opportunity for developers to create new outer-edge communities with real town centers and urban amenities. Even on the outer edges, a compact, walkable lifestyle that is affordable will be attractive to income-constrained young families, especially if it provides transportation alternatives.

Immigrants. It is estimated that there are 40 million foreign-born people, both legal and illegal, now living in the United States, accounting for about 13 percent of the population. Their impact, however, is far greater when their U.S.-born children and grandchildren are included. Immigrant households are 50 percent more likely to live in poverty than are other households—even though more immigrant households than native-born ones have at least one worker—and they generally have lower educational levels.

The Latino population, already the nation's largest minority group, is projected to triple in size from its current level by 2050 and, combined with other minorities, will account for over 70 percent of the nation's population growth. Hispanics are projected to make up 29 percent of the U.S. population in 2050, up from 14 percent in 2005.

This growth is increasingly a result of births in the United States rather than immigration. Of the 117 million people added to the population between 2005 and 2050 through immigration, 67 million are projected to be the immigrants themselves and 50 million are projected to be their U.S.-born children or grandchildren. For this reason, the Latino and Asian populations are expected to have younger median ages than the rest of the population as whole.

Experience has shown that immigrant populations move to the national norms in education, incomes, and lifestyles after the first generation. What impact the current recession will have on this trend is unclear, except that it is likely to slow immigrants' growth in incomes and wealth. This in turn is likely to slow their progression to homeownership.

Immigrant populations naturally cluster together. Over the past two decades, these clusters have moved from the central cities, where they tended to gather in the past, to the inner suburbs. It is not clear yet whether they will make the jump to the next ring of suburbs. Latinos tend to favor larger homes because they often have larger and multi-generational families living in one house. This would lead them to favor moving to those suburbs with larger homes, if they can afford them. On the other hand, they frequently like living closer together, not isolated from one another, and with a greater sense of community than most people experience in the suburbs. This suggests that the established cul-de-sac suburbs may not be attractive to them.

The Demand for Housing and the Future of Homeownership

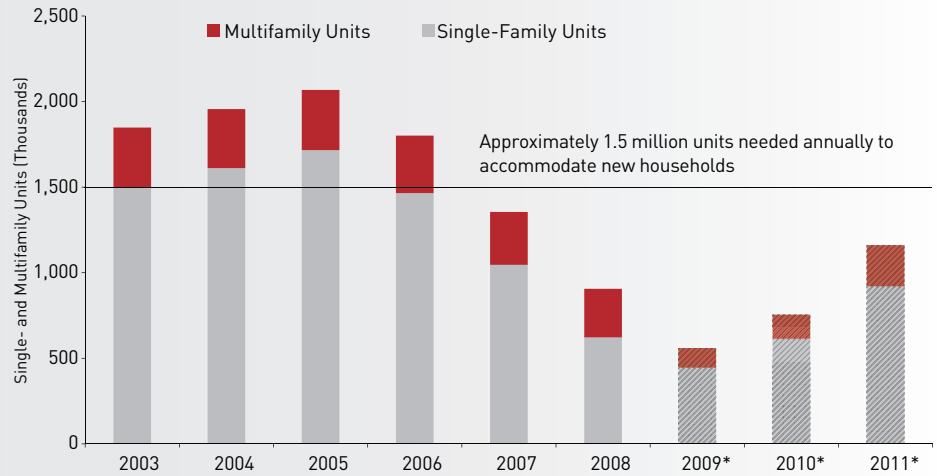
The U.S. population is growing at a rate of 2.5 million to 2.8 million people per year. The size of households, however, has been on a long-term decline: it was 4.6 people in 1900, 3.38 in 1950, and 2.6 in 2000. Recently, however, it has begun to increase slowly due largely to immigration. The fastest-growing segment in household size recently has been single-person households, most of which are made up of women. Going forward, the Harvard Joint Center projects that

[m]arried couples without children (including empty nesters) will be the fastest-growing household type, followed closely by single-person households. While the number of married couples with children will fall by nearly a million among whites, it will increase by more than a million among Asians and Hispanics.

(The State of the Nation's Housing 2009, page 15.)

There will be an ongoing and robust need for housing production in the decade ahead. The Harvard Joint Center projects that from 1.25 million to 1.5 million new households will be formed annually in the coming decade.

FIGURE 5: Construction Starts for Single- and Multifamily Units: Fannie Mae Projects a Slow Recovery



Sources: U.S. Census Bureau, Fannie Mae.
Note: * = Fannie Mae projections.

The current recession, however, has dramatically suppressed natural household growth in the past two years. IHS Global Insight, a leading economic consultancy, reports:

According to the 2009 Annual Social and Economic Supplement to the Current Population Survey (CPS), the number of households increased by 398,000 between March 2008 and March 2009. This was the smallest increase since 1983, and the second-smallest increase in the history of this statistic, which dates back to 1947.

(Patrick Newport, "U.S. Household Formation Is Down Sharply," IHS Global Insight's online *Perspectives*, Dec. 16, 2009.)

This compares with an increase of 1.63 million from March 2006 to March 2007 and constitutes a 75 percent drop in household formation over two years during which millions of young adults graduated from high school and college. When jobs return, there will be a surge in housing demand caused by those who would have formed a new household but could not do so, along with those just coming into the housing market.

Over the past decade, housing production topped 2 million homes a year, far greater than demand. This has led to the collapse in production today: only 600,000 homes were started in 2009. This number is projected to rise to 800,000 in 2010, but it is still below what is needed to meet new household demand when the economy recovers. The percentage of new housing production that is multifamily will increase as production returns because most new households will be members of generation Y and immigrants, both of which will be renting in large numbers. This will be reflected in a decline in the homeownership rate.



From 1900 through 1930, homeownership levels fluctuated from 45 to 48 percent, until the Great Depression and World War II brought it down to 43 percent in 1940. Following the war, the great suburbanization of the United States raised homeownership over the next two decades to 62 percent in 1960, driven by a booming economy, rising real incomes, favorable tax laws, a rejuvenated homebuilding industry, and easier financing.

The homeownership rate then fluctuated between 62 and 64 percent for the next 30 years. It only began to climb above 64 percent in the 1990s and the first decade of the current century, spurred by administrations of both parties adopting national policies designed to encourage homeownership, and by a growing flood of low-cost capital flowing into the housing markets. In 2005, the rate peaked at 69.9 percent. It has been falling steadily since then and reached 67.2 percent at the end of 2009. It will continue to fall.

One factor in this decline is demographics. The Harvard Joint Center notes:

[D]emographic forces—especially the shift toward minorities, who have much lower ownership rates than whites—in fact worked against homeownership gains. Indeed, if homeownership rates by age, race/ethnicity, and household type had remained at 1995 levels, demographic trends alone would have reduced the homeownership rate by a full percentage point over this period.

(The State of the Nation's Housing 2009, page 13.)

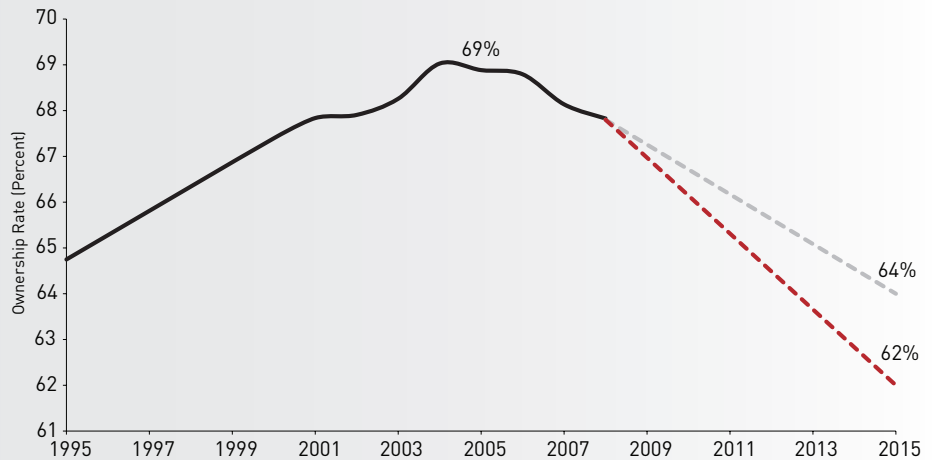
The recession has accelerated this decline, largely through the influence of rising foreclosures and the drop in new household formations noted above.

As the economy recovers, it is unlikely that the homeownership rate will return to 69 percent. There are many who believe that U.S. housing markets will return to the same condition as before the recession. Among other things, they look to generation Y to revive the homeownership market because many of its members are at the prime age to become first-time homebuyers. However, as noted above, this generation will rent far longer than previous generations. Other factors, such as constrained credit flows to the housing markets in the years ahead and generally flat or declining incomes, will also act as a drag on the homeownership rate.

For all these reasons, the homeownership rate is likely to fall back to the low 60 percent range, where it was before 1990. This is also the range predicted by Sam Zell, the billionaire Chicago real estate investor, at a ULI meeting in New York City in January 2010. Arthur C. Nelson, director of the Metropolitan Research Center at the University of Utah, has also suggested that this is where the rate will finally settle.

To put this in perspective, homeownership rates in the European Union range from the low 40 percent range to 85 percent in Spain. There appears to be no magical rate that produces a stable economy and community, and the experience of the 30 years from 1960 to 1990—when the country prospered despite a homeownership rate in the low

FIGURE 6: U.S. Homeownership Peaked in 2004; Where Will It Stabilize?



Sources: Harvard Joint Center for Housing Studies, *The State of the Nation's Housing 2009*; ULI projections.

60 percent range—should be reassuring in this regard. Further, an unduly high homeownership rate can act as a drag on labor force mobility, especially today when many workers are unable to sell their homes to move to areas with jobs.

A school of thought exists that extols the virtues of homeownership for community stability and for educational and health benefits for children. However, new studies are raising questions about these results, suggesting instead that it is housing stability that is the key factor in producing positive outcomes, not whether a home is owned or rented. In short, there is no reason to believe that a homeownership rate in the low 60 percent range should be of national concern.

If, on the other hand, a confluence of circumstances conspires to produce a homeownership rate in the 50 percent range, this will be a game changer for the United States. The most likely cause for such a low homeownership rate would be a prolonged or double-dip recession, followed by a slow recovery. What the impact of this would be on the economy, local communities, and people is hard to predict, but it likely would be problematic at best.

Unfortunately, the decline in the homeownership rate will have a disparate impact on different racial and ethnic groups whose homeownership rates already differ widely. For example, in 2004 the homeownership rate was 76 percent for the white population, 60 percent for Asians, 49 percent for African Americans, and 48 percent for Latinos.

As the overall homeownership rate declines, this disparity is likely to grow because disproportionately large numbers of African Americans and Latinos were victims of predatory lending practices: by some estimates, almost half of all loans in default are

held by African Americans. Both African Americans and Latinos already have lower levels of income and wealth and higher unemployment rates than the white community, so the impact of these high rates of default and foreclosures is likely to significantly lower their already low levels of homeownership. This raises questions about the future efficacy of programs designed to use homeownership as a way to build the wealth of members of these communities.

Affordable and Workforce Housing

Home prices are reaching levels of affordability not seen in years. The median sale price for existing homes nationally was \$164,900 in March 2010, down from \$221,900 in 2006, according to the National Association of Realtors. Likewise, the U.S. Census Bureau reports that the median price for a new home has fallen to \$216,600 from \$247,900 in 2007. Nor are prices expected to rise rapidly in the future. The rate of appreciation likely will revert closer to long-term norms—a disappointment to those who came to believe that the double-digit annual price increases experienced in the decade before 2006 were “normal.”

Robert Shiller, a Yale economist and cocreator of the Case/Shiller index, has shown that over the long term, housing prices generally rise about 0.75 to 1 percent per year over the rate of inflation. Nic Retsinas, director of the Harvard Joint Center, expects a somewhat better performance, projecting that home price growth will average about 1.5 percent above inflation over the next decade. This would equate to an average increase of about 3.5 percent per year—based on the Federal Reserve’s long-term inflation forecast of an average 1.7 to 2 percent. These rates of real growth reflect a return to an older “normal”—a normal that precedes the past decade during which prices rose and fell at unprecedented rates.

Whether the coming decade will be a period of steady growth in housing prices, albeit at the more moderate rates of the past, remains a question. On one hand, the population is expected to grow steadily in the years ahead, and once job growth returns, household formation will also recover. Urban markets are expected to be strong, so they may show above-average rates of price growth. On the other hand, affordability will be a problem for the large group of generation Y and immigrant first-time homebuyers. Housing prices in the outer-ring suburbs, which have been hard hit by foreclosures, are likely to remain flat for years to come, and large homes in the second-ring suburbs may not appreciate much due to a shortage of move-up buyers. Therefore, the rate of price appreciation will depend largely on location of the home, as it has historically.

For many Americans who are already homeowners, this means their homes will rise only modestly in real value over time. This will be especially troublesome for those whose homes are underwater, because it may take them many years to regain equity in their investment.

This raises as well the issue of whether homeownership is a good way to build wealth. Some studies show that over the long term, the value of a home does not grow as fast as investments in the stock or bond markets, though many of these studies do not take

into account the leverage of a 70 percent or higher mortgage and the forced savings of paying down an amortizing mortgage.

Nevertheless, with only gradual appreciation to look forward to, and the high transaction costs of purchasing and selling a home taken into consideration, home buying as a way to build wealth makes sense only for those who plan to stay in place for ten years or more. Few in generation Y will be able to do this for many years; instead of necessity, they will be moving from place to place as they build the foundations of their careers.

Modest price increases in the years ahead would seem to be good news for people looking to buy their first home. The problem is the location of those homes that have lost the most value: it is those on the outer suburban edges and in certain hard-hit inner-city neighborhoods that have become the most affordable. First-time homebuyers will find themselves once again forced to “drive until they qualify,” leaving behind the communities in which they work in order to obtain a mortgage.

This is a false economy, as has been demonstrated by recent studies by the ULI Terwilliger Center for Workforce Housing: the savings in home price are often more than offset by the greater cost of transportation to jobs and to all the services it takes to support a home and lifestyle. The Terwilliger Center’s recent Priced Out studies of home prices in the Washington, D.C., and Boston metropolitan regions and the San Francisco Bay Area show that for members of the moderate-income workforce, housing remains largely unaffordable in the urban areas and closer-in suburbs where many of them work. Absent aggressive local policies to provide for a mix of housing in the closer-in suburbs, those in the workforce who fail to take into consideration the cost of transportation will continue to move far from the communities in which they work to find what they believe will be a more affordable home.

There is, however, a growing awareness among many people, especially members of generation Y, of the false savings involved in buying a less-expensive home far from jobs and services. As the cost of gasoline continues its inexorable rise in the years ahead, this false economy will become more obvious. For this reason it is probable that many people in the market for a new home to buy or rent will be willing to pay more for housing if it significantly reduces their costs of transportation. The Terwilliger Center’s Cost Calculator for the San Francisco, Boston, and Washington, D.C., metropolitan regions is designed to enable people to directly calculate this trade-off between housing and transportation costs and provide a more comprehensive estimate of the total “cost of place” in deciding where to live. It is expected that this will help more members of the workforce understand that they can in fact afford a somewhat more expensive home closer to work because of savings in transportation costs.

The Future of Rental Housing

The rental vacancy rate in the United States was 8 percent at the end of 2009, the highest level since 1980. At the same time, rents fell 3 percent. These conditions are projected to continue through 2010 and into 2011 as units started in 2007 and 2008 come

on line. Multifamily starts are down almost two-thirds from their peak of two years ago. In contrast, the years 2012 through 2014 may be very good for the multifamily housing market. If the economy has recovered by then, as many economists predict, and unemployment falls back to 6 or 7 percent as expected, it will spur demand for rental housing—and housing in general—because household formation should rebound. There will be little new multifamily product on the market, however, due to the low rate of starts today. Some experts predict increases in rents in 2012 of as much as 4 to 6 percent; a similar strong increase in rents is expected for 2013. This represents only a 1 percent annual increase from 2007 levels, so even these higher rents should generally be affordable to the members of generation Y and immigrants who will constitute the primary market.

Longer-term trends also favor both rental housing and multifamily housing in general. The falling homeownership rate, the wave of gen-Yers deferring homeownership, and growing urbanization will increase long-term demand for rental and multifamily housing.

The Greening of Housing: From Here to Net Zero in Ten Years

The movement toward greener, more energy-efficient construction has been gaining momentum since before the recession. Most green buildings, however, have been commercial structures, and among residential buildings, most of those certified green have been multifamily. The certification of single-family homes has been growing more slowly. While the number of homes that have met one green standard or another is now over 1 million, that is still less than 1 percent of existing homes. Most standard homes built today, however, are far more energy efficient than ones built only a decade ago, even without a green certification.

Anecdotal evidence from builders still in the market suggests that homes that meet a green standard are selling better than those that do not, so long as any premium in price is modest and offset by energy savings. This is despite the fact that most homebuilders remain skeptical about the benefits of building green in marketing their homes. Surveys show that more than 50 percent of homebuyers want a green home, but most are unwilling to pay much more for it. The challenge is to develop technologies that reduce energy use at no extra cost and to promote other sustainable practices that cost the same as or less than standard practices. Many of these technologies are available today, though they are not yet widely known or understood.

What is considered green is evolving and standards for certification are changing—especially regarding energy efficiency—a trend that will continue. Local building codes are requiring more efficient homes, and provisions for a national building code are contained in the current cap-and-trade legislation pending in the U.S. Congress. Energy prices are expected to remain volatile, which will add support at the local, state, and national levels for tougher standards for energy use in homes and all construction. This volatility will also increase market demand for homes that use less energy, especially among members of generation Y, which is expected to produce the largest wave of new households in U.S. history.

Standards, markets, and technologies are evolving and a new goal is emerging—the net-zero-energy home. Most definitions of this model describe a home that buys electricity from and sells electricity into the national grid. These homes are heavily insulated and built with smaller, highly efficient heating, venting, and air-conditioning systems. They produce electricity with solar- and sometimes wind-powered systems. Because renewable energy systems like these produce energy only when the sun and wind are available, these homes need to draw power from the grid. On the other hand, they also produce more power than they need at certain times. During these periods, they sell electricity into the grid—often during times of highest demand such as the daytime, which also happens to be the most inefficient and costly time for power companies to supply energy. If the homes are well built, the net energy sold can exceed the amount purchased, thus adding to the overall energy supply in the community.

A few net-zero homes are being built in Europe and the United States. Their cost is somewhat higher than that of standard homes, but this premium will diminish. The pace at which their production increases, and the pace at which the energy efficiency of homes in general increases, will depend on various factors, including the cost of energy, local standards, and national policies seeking to reduce dependence on foreign energy sources and the impact of energy use on the climate. Whatever the pace, this trend will continue until the net-zero-energy home is the standard for newly built homes.

The Urban Century: Reurbanizing the American Suburbs

Many factors are converging to shift housing markets from the traditional American cul-de-sac suburb to a more urban lifestyle. This includes not only those central cities with a vibrant 24/7 downtown, but also the newer form of suburban town center that is emerging in the suburbs of metropolitan regions around the country. Among those factors are the following:

- Married couples without children—including empty nesters—will be the fastest-growing household type in the decade ahead, followed closely by single-person households. Because these households generally do not determine where they live according to the quality of education for their children, they are not drawn to the suburbs for their better schools.
- The aging baby boomers are either staying put in their suburban homes or, if and when they can, selling them and leaving the suburbs to move closer to jobs in the city and to the city's urban amenities.
- The younger boomers have already moved to the suburbs; this large outward migration is now over. Their next move, when it comes, will be either within a suburb or, more likely, to a more urban location as they follow the older boomers back to the city.
- The primary group of move-up buyers for new suburban homes is generation X, a significantly smaller group than the baby boomers. Their ability to sell their existing homes is constrained by the market today, and many find themselves with homes that are underwater. When they do move, they are likely to find that there is already a sufficient supply of modestly priced existing suburban homes to move up to. The market for new suburban homes thus is likely to be quite small.
- Few members of generation Y will be ready to move out to a traditional suburban cul-de-sac for another ten years, at least.

As popular as many 24/7 cities have become, there are many people who want a more urban lifestyle but want to stay close to their friends in the suburbs, do not want to live in the “big city,” or simply cannot afford to live downtown. These people will be looking to live in suburban town centers that can provide real urban amenities—namely, a wide mix of housing, stores, and services; a vibrant, diverse community of people; and an attractive, walkable central area. Those areas that have good public transportation within them and transit links to the city and other parts of the region are likely to be the most successful. For these reasons, there will be an “enormous market for more urban lifestyles within the suburbs,” professor Ellen Dunham-Jones of the Georgia Institute of Technology said at a recent ULI Conference on Sustainable Suburbs.

The trend toward greater urbanization was already well underway in many cities across the United States before the recession. A study released in 2009 by the U.S. Environmental Protection Agency titled *Residential Construction Trends in America's Metropolitan Regions* shows that there has been a striking move back to the urban core in many markets. In other markets, this reurbanization is small but growing; elsewhere it has been negligible.

The study looked at the 50 largest metropolitan regions in the United States from 1990 to 2007 and concluded that “. . . in roughly half of the metropolitan areas examined, urban core communities dramatically increased their share of new residential building permits.”

For example:

- In 15 regions, the central city more than doubled its share of permits.
- In the early 1990s, New York City issued 15 percent of the residential building permits in its region. During the early part of the past decade, it averaged 44 percent.
- Over the same period, Chicago saw its share of regional permits rise from 7 percent to 23 percent, while the share in Portland, Oregon, rose from 9 percent to 22 percent and in Atlanta, Georgia, from 4 percent to 13 percent.
- The increase has been particularly dramatic during the past decade; data from 2007 show the shift into the central city continuing in the wake of the real estate market downturn.

This acceleration of residential construction in urban neighborhoods reflects a fundamental shift in the real estate market. In fact, if core urban suburbs—that is, those closest to the central city—are included, more than half of all residential permits in New York City, Chicago, and Los Angeles were in the urban core in 2007, the highest level in decades.

Suburban town centers are demonstrating great market resilience. In the Washington, D.C., metro region, for instance, housing prices in places like Bethesda, Maryland, and the Ballston-to-Rosslyn corridor in Arlington, Virginia, have remained stronger through the current recession than those in the outer suburbs, such as Loudoun and Prince William counties.

Public policy is changing as well. Policies at the federal, state, and local levels are beginning to encourage more compact development in an effort to reduce oil use and cut emissions of greenhouse gases by cars and trucks. After all, the greenest energy-efficient building located in an outer-ring greenfield uses more energy than an average building in an urbanized area.

The challenge presented by this reurbanization is that once the economy recovers and household formation resumes, the demand for urban housing will greatly outstrip the supply. This imbalance is likely to continue for the rest of the current decade and beyond. Producing enough urban housing to meet this demand, even in the close-in suburbs, requires infill development, which is time consuming and costly.

The obstacles are well known: hard-to-assemble and expensive land; intense opposition to development from community leaders; overly democratized development review processes; complex and often out-of-date planning, zoning, and building codes; and more complex and expensive construction types needed to obtain economic densities. Efforts are being made at the local level to address these problems, but unless a radical and revolutionary shift occurs in thousands of localities across the country, all too many members of generation Y and immigrants will be forced to move well away from the urban and suburban town centers they would choose were housing there available and affordable.

The challenge for ULI is to help bring about the radical reformation of local rules needed to permit faster and more affordable infill development. ULI also can help the industry better understand the importance and opportunity to be found in building communities on the outer edges that contain real urban town centers and housing affordable to the whole range of the market. Active and farsighted public policies may help these outer-ring suburbs grow into new satellite towns, much like the garden cities envisioned so long ago by Ebenezer Howard.

Regional Winners and Losers

As metropolitan regions urbanize, not all will grow at the same rate. As often happens, even during a time of continuing population growth, some regions will grow slowly or not at all. Which these will be is likely to shift from what has been the case in past decades.

Job growth and population increases go hand in hand, and it is often hard to tell which is the driver and which is the result. The migration to the Sunbelt, for instance, produced millions of new jobs as homes, stores, and other amenities were created for the newcomers.

This trend has seen a sharp shift in the past year. In December 2009, the U.S. Census Bureau reported that the Sunbelt migration had come to a sudden halt. Population growth in four of the fastest-growing states has stopped. In Arizona, population growth has slowed precipitously, dropping the state to eighth in the country in overall growth from first three years ago. Florida, Nevada, and California experienced net out-migration for the first time in decades.

Florida's case is particularly dramatic. It has fallen from being the state with the most net domestic migration for July 2001 to July 2005, to 45th from July 2008 to July 2009, with a loss of 31,179 people to other states. In terms of its total growth rate—including foreign arrivals and departures—Florida now ranks 32nd, down from third in 2002.

Similarly, Nevada has fallen to 17th in total growth after leading the country from 2000 to 2004. It now ranks 36th in domestic migration, losing 3,801 people after adding more than 170,000 from other states from July 2003 to July 2006.

Texas, on the other hand, was the big winner, adding 231,539 people from July 2008 to July 2009, more than any other state, and also more than Florida, Arizona, California, Nevada, and Colorado combined. Other states improved their positions as well. Massachusetts, New York, and New Jersey, for instance, are holding on to more residents than in past years. Likewise, California's net loss to migration dropped to 99,000 people as of July 2009, down from 313,000 three years ago.

Future scenarios may include 60 percent of U.S. population growth in the coming decades occurring in 20 "megapolitan" regions, as noted by Robert Lang, director of the Brookings Mountain West Center at the University of Nevada–Las Vegas. "Imagine a contiguous span of populated land from Portland, Maine, to Richmond, Virginia, the joining of Carolina's Research Triangle with Georgia's Atlanta, the meeting of the Puget Sound and the Willamette Valley," says Charlie Hewlett of RCLCO.

These sudden shifts in migration patterns may be either signs of things to come or temporary blips. What is clear is that cities with strong 24/7 downtowns have fared better during this downturn than those without. The same is true in the suburbs: the inner suburbs and suburban town centers have fared far better than the outer suburbs, demonstrated by stronger home prices and lower foreclosure rates.

The other factor in determining which metropolitan regions will be winners and which losers in migration patterns is the economy of the region. This, in turn, is affected by whether the region is deemed a desirable place to live by those in the top, limited talent pool of educated and creative workers. For this reason, cities such as Seattle, San Francisco, San Jose, Los Angeles, San Diego, New York City, and Washington, D.C., are likely to do well over the longer term. Even Miami, despite experiencing one of the steepest drops in home prices in the United States, is likely to recover over time as long as it continues to be viewed as the capital of South America.

Conclusion

The most difficult issue to predict is the impact of the current housing crisis on those who have suffered the most from it. Six million or more households will have been forced out of their homes by the current wave of foreclosures by the end of 2010—over 15 percent of all households with mortgages—with more foreclosures expected in 2011. This will affect 12 million to 15 million people, including children and young families. Their credit will be impaired for the next ten years and their housing options limited.

The emotional impact of the foreclosures on children and their parents and disillusionment about the “joys” of homeownership will be intense; new attitudes toward homeownership and the American dream will emerge. The need for housing assistance is already greater than what the federal government can meet. State and local governments are cutting budgets and reducing services as tax revenues decline, especially in areas of high foreclosures. The impacts of this crisis will extend well into the future.

About the Author



John K. McIlwain is a senior resident fellow at the Urban Land Institute and the ULI/J. Ronald Terwilliger Chair for Housing. As the senior resident fellow for housing, McIlwain's responsibilities include leading ULI's research efforts to seek and promote affordable housing solutions in the United States and other countries, including development and housing patterns designed to create sustainable future environments for urban areas.

In addition to his research activities at ULI, McIlwain is chairman of the Center for Housing Policy and a past president of its affiliate the National Housing Conference, an umbrella organization in Washington, D.C., addressing low-income and affordable housing issues. He is a past president of the National Housing and Rehabilitation Association. He is currently on the boards of the Community Preservation and Development Corporation and the International Housing Coalition, and on the advisory board of the Capmark Community Development Fund.

Before joining ULI, McIlwain founded and served as senior managing director of the American Communities Fund, a venture fund founded by Fannie Mae and dedicated to investing in hard-to-finance affordable housing. In this capacity, he was responsible for structuring, underwriting, and closing equity investments in more than \$700 million of residential and neighborhood retail developments in lower-income communities around the country. He also structured, negotiated, and closed more than \$100 million in historic tax credit and inner-city equity investment funds with Lend Lease, AEW Capital Management, and the Community Development Trust. Before taking that position, he was president and chief executive officer of the Fannie Mae Foundation.

Before joining Fannie Mae, McIlwain was the managing partner of the Washington law offices of Powell, Goldstein, Frazer, and Murphy, where he represented a broad range of clients in the single- and multifamily housing areas. McIlwain received a law degree from New York University, where he worked for the *New York University Law Review* and was a John Norton Pomeroy Scholar. He received a bachelor of arts degree, cum laude, from Princeton University.

Acknowledgments

Matthew Johnston and Sarah Jo Peterson provided invaluable help in researching this paper. In addition, Maureen McAvey and ULI senior fellows Ed McMahon, Tom Murphy, and Michael Horst reviewed the paper and offered valuable ideas and insights, as did Knox McIlwain, associate, Cleary Gottlieb Steen & Hamilton LLP. The ideas, predictions, and opinions, as well as any mistakes, remain those of the author.

Roseville Affordable Housing

Metropolitan Council Ownership and Rent Affordability Limits 2011

The Metropolitan (Met) Council's definition of "affordable housing" represents the upper limit of monthly rents and home-purchase prices for housing referred to in Framework policy as affordable to low- and moderate-income families. These income limits for determining affordability have been a part of the foundation for goals negotiations and monitoring of goals progress with Livable Communities Act (LCA) participating cities since 1995, and have been the basis for counting all new affordable units in the housing stock, i.e., all new publicly-assisted and market rate units affordable to low-and-moderate income households.

For units constructed in 2011 and beyond, the Met Council is using a consistent income limit of what a family of four with an income at or below 60 percent of area median income (AMI) can afford to pay in monthly housing costs for either rental housing or mortgage costs (including principal, interest, property taxes and homes insurance).

Area Median Income for a family of four for 2011 in the Minneapolis-St. Paul Metropolitan Area is \$82,700. The median income for 60% of the area median income is \$49,600 and the median income for 30% of the area median income is \$24,800. This yields an affordable purchase price of \$160,250 and \$72,800 respectively for 2011.

Affordable Rents are defined below for the Minneapolis-St. Paul Metropolitan Area.

2011 RENTAL HOUSING			
Bedroom size:	Monthly gross rent including tenant-paid utilities, affordable at 30 percent of area median income [§]	Monthly gross rent including tenant-paid utilities, affordable at 50 percent of area median income [§]	Monthly gross rent including tenant-paid utilities, affordable at 60 percent of area median income
Efficiency	\$435	\$723	\$870
1 bedroom	\$465	\$775	\$930
2 bedrooms	\$558	\$931	\$1,116
3 bedrooms	\$645	\$1,075	\$1,290
4 bedrooms	\$720	\$1,200	\$1,440

Ownership in Roseville

The Ramsey County Assessors office filed a report dated March 18, 2011 that is available online which provides the following information for values of residential properties in Ramsey County for 2010 is as follows:

Roseville has 10,970 residential parcels with a median value of \$204,300 and an average value of \$209,903. The county breaks out the follow three types of ownership values:

1. **Single family** homes 8,511 parcels with a median value of \$214,200 and an average value of \$231,055.

2. **Townhomes** 672 parcels with a median value of \$189,100 and an average value of \$216,335.
3. **Condos** 1,696 units with a median value of \$93,700 and an average value of \$100,287.

Ramsey County has tracked residential sales between October 1, 2009 and September 30, 2010 for Roseville there was 217 sales with a median price of \$217,500 and an average price of \$236,182. The lowest price sale recorded was \$52,800 and the highest was \$920,005.

Rental in Roseville

Affordable rents are when people pay less than 30% of their income for rent. From the 2009 American Communities Survey 45.1% of the Roseville population pays over 30% of their income for rent.

Project Based Section 8 buildings

Definition: Project based Section 8 is when everyone in the building is guaranteed to pay no more than 30% of their income for rent. Currently Roseville has only 3 project based section 8 buildings:

1. Conventry Apartments for seniors and disabled	103
Conventry family townhomes	93
2. Roselawn Village Apartments for disabled	22
3. Roseville Senior Housing Apartments	<u>103</u>
Total	345

As of 2011 the Roseville Inspections department estimate that they inspect 257 units of section 8 assisted units scattered over 45 different properties in Roseville. (These vouchers are portable with in the metro area so the numbers will consistently fluctuate.) 2030 Comprehensive Plan estimated that as of 2007 there are 5,059 rental units in Roseville.

Three multi-family rental properties are income restricted properties that must rent to people who make 60% or less of the area median income. Those properties are:

1. Calibre Ridge	49	40 Section 8 Renters
2. Centennial Gardens	144 out of 190 units	44 Section 8 Renters
3. Sienna Green	<u>120</u>	<u>34</u> Section 8 Renters
Total	313 Units	118 Section 8 vouchers

These three properties have 46% of the portable Section 8 rental voucher holders.

The percentage of units that guarantee to pay no more than 30% of their income for rent in Roseville is 6.8% for Project Based Section 8 units and 12% for overall Section 8 units. The total number of affordable rental units is 658, 13% percent of Roseville rental units.

Met Council Requirements for Affordable Housing 2011-2020

The Met Council determines community's new construction of affordable housing units based upon total number of projected household growth for the metro area with a determined factor that 38% of the households will earn incomes less than 60% of the area median income (AMI) or \$41,000. The determined number of affordable housing units for the whole Metro Area is 51,000 for 2011-2020.

The Met Council then allocates the number of affordable housing units per a formula to communities based upon the proximity of jobs that pay less than \$41,000 in a 10 mile radius of the center point of the city, the number of affordable housing stock and the transit service. Roseville's determined new affordable housing units need is 201 for 2011-2020.

MHP's "2 x 4" Report

Quarterly Housing Indicators

Quarter 2 2011

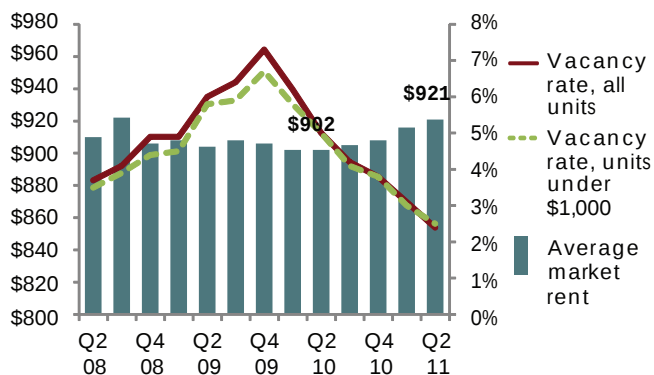
MHP's "2 x 4" Report tracks two timely and important trends in each of four key housing areas: the rental market, the owners' market, homelessness and the housing industry.

Minnesota Housing Partnership

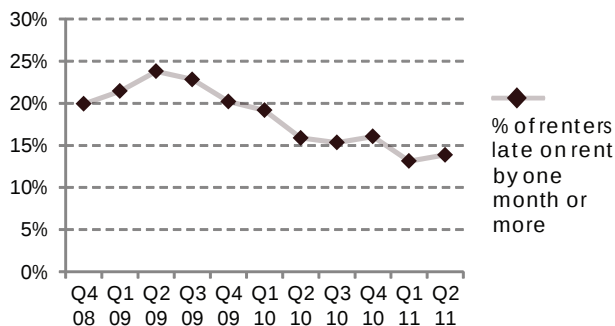
Rental Market

The vacancy rate in the Twin Cities plummeted to 2.4%, a ten-year low, while average rents increased to \$921, up from \$902 a year ago. A vacancy rate below 5%, the rate considered balanced, could signal rent increases ahead. This quarter, about 14% of non-luxury renters were delinquent in rent.

Twin Cities Rents & Vacancy Rates



Tenants in Non-Luxury Units with Rent Past Due

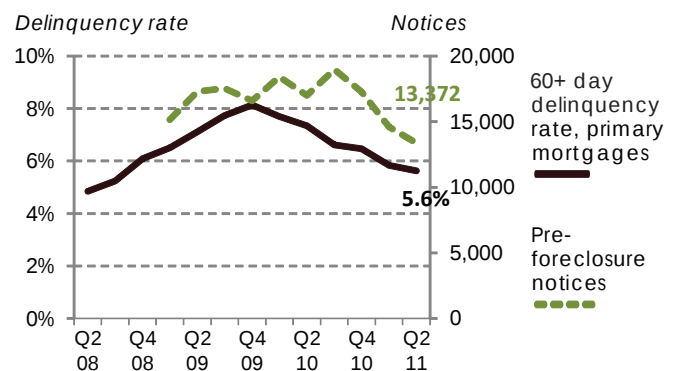


Based on survey of 5,400 non-profit-owned units.

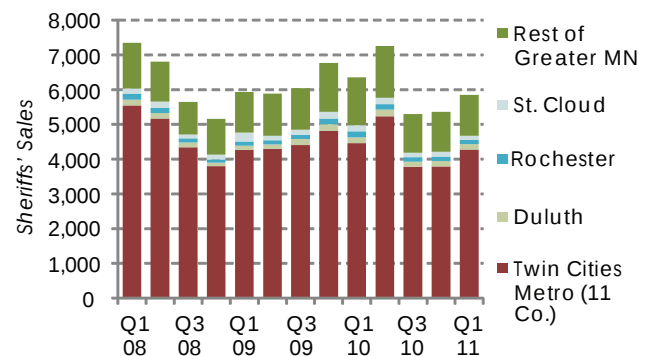
Owners' Market

While mortgage delinquencies and pre-foreclosure notices were down, foreclosures rose this quarter. The 60-day delinquency rate reached 5.6%, down from 8.1% a year and a half ago. Pre-foreclosure notices were down from last quarter, but foreclosures rose by 9% due to increases in the metro region.

Minnesota Mortgage Delinquencies & Pre-foreclosure Notices



Minnesota Foreclosures



2446 University Avenue West, Suite 140
Saint Paul, MN 55114
651-649-1710, 800-728-8916
fax: 651-649-1725

[www.mhponline.org/publications/
reports-and-research/2x4-report](http://www.mhponline.org/publications/reports-and-research/2x4-report)

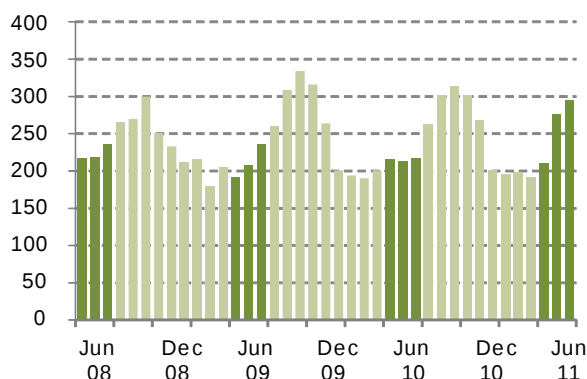
MHP's "2 x 4" Report

p. 2

Homelessness

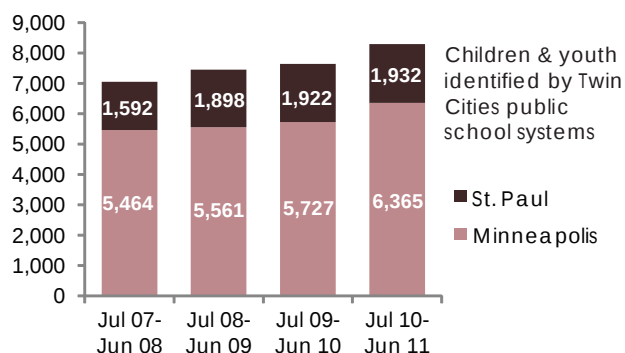
Homelessness was up among Hennepin families seeking shelter, averaging 260 monthly this quarter - double the number in this quarter for 2006. 8,300 children and youth were identified as homeless by Minneapolis and St. Paul schools, up 8% since last year and 18% over the last three years.

Hennepin Family Homelessness



Unduplicated count of families using publicly funded shelters. Note seasonal nature of shelter usage, with usage lower during winter months.

Homeless Kids in the Twin Cities



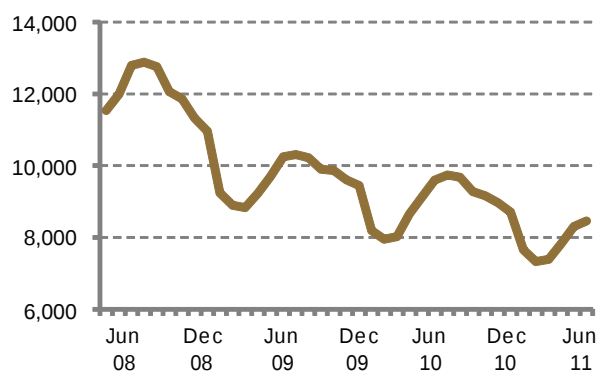
Children & youth identified by Twin Cities public school systems

■ St. Paul
■ Minneapolis

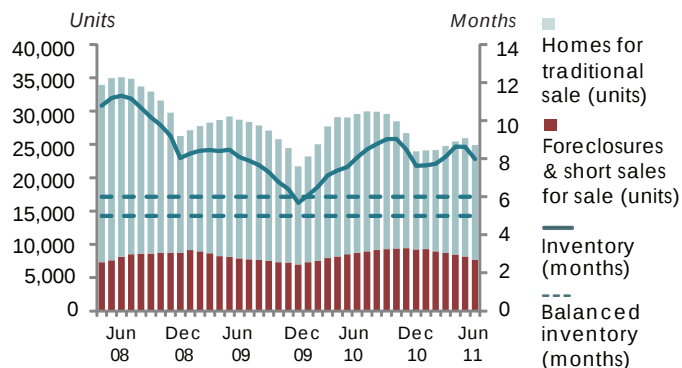
Housing Industry

Employment in residential construction hit a 19-year low for the quarter, dropping to 8,200 jobs per month statewide. Compared to last year, the number of homes for sale was down for the quarter; however with fewer homes being sold, the months of inventory (approximately 8) was unchanged.

Minnesota Residential Building Construction Employment



Twin Cities Homes-for-Sale Inventory



Inventory reported for the first day of the month.

For MHP's "2 x 4" archives and data notes, visit www.mhponline.org/publications/reports-and-research/2x4-report.

SOURCES: Renters: Marquette Advisors (top); MHP survey (bottom). Owners: National Delinquency Survey, Mortgage Bankers Association; MN Home Ownership Center (top); HousingLink (bottom). Homelessness: Hennepin County (top); Minneapolis & St. Paul Public Schools (bottom). Industry: Current Employment Statistics (CES)(top); Minneapolis Area Association of Realtors (bottom).

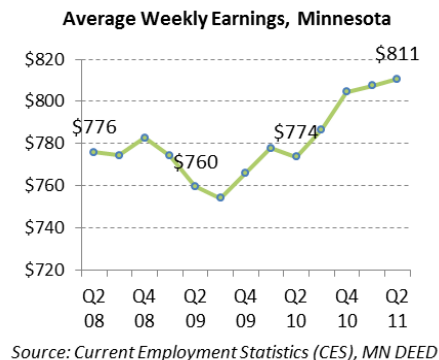




MHP's "2 x 4" REPORT— 2011 Quarter 2 (Released September 14, 2011)

While some indicators, such as a reduction in mortgage delinquencies, bring welcome news, this quarter many of the housing trends were worrisome. Foremost among them is a significant rise in homelessness among children and families, at least in the Twin Cities, where data is available.

For those who are employed, the news was not too bad. Average weekly earnings reached \$811, compared to \$774 a year ago. Yet the unemployed are not riding this same positive trend. The official state unemployment rate averaged 6.6%, down a hair from last quarter, but the rate inched upward each month, reaching 7.2% by July. In addition, US data suggest that the duration of unemployment can be surprisingly long. In June 2011, unemployed workers reported being out of work for an average of 39.9 weeks nationwide. Furthermore, official unemployment rates exclude people who have not actively looked for work in the last four weeks, such as those who have given up searching due to dim prospects. This deep long-term unemployment in the absence of increased government support places families at risk for homelessness.



Rental Market

The Twin Cities metro rental market continued to tighten in the second quarter, with the rental vacancy rate reaching a 10-year low. This trend reflects in part a slightly lower unemployment rate and higher earnings for workers. A steep increase in the number of foreclosed homeowners who are now renters since 2005, and limited construction of rental housing also contribute. As mentioned in the previous 2x4 Report, the number of multi-family units permitted from 2006 to 2010 in Minnesota was the lowest in 50 years for any 5-year period. Meanwhile, rents marched upwards this quarter, while the low rental vacancy rate sets the stage for higher rents to come. Rising rent levels present a serious concern for low-income renters already severely burdened by the cost of rental housing.

- This quarter, the rental vacancy rate in the Twin Cities metro fell to 2.4% - a 10-year low. A year and a half ago the vacancy rate was 7.3%
- The average monthly rent rose to \$921, compared to \$902 a year ago. Low vacancy rates signal likely future rent increases.
- 14% of renters in non-luxury units were delinquent for rent this quarter.

Owners' Market

The mortgage delinquency rate and pre-foreclosure notice numbers heralded positive news again this quarter, indicating fewer homes entering the foreclosure pipeline process. Yet the actual number of foreclosures increased by a notable 9%. The entire increase in foreclosures, as measured by sheriffs' sales, is actually attributable to the 11-county Twin Cities metro area (up 13%), while foreclosures in the remainder of the state were unchanged. The most dramatic metro increases were seen in Sherburne and Scott Counties, up 44% and 35% respectively.

The increase in foreclosures seems counterintuitive, given that both pre-foreclosure notices and delinquencies have been trending downward. Staff from the Home Ownership Center of MN suspect that a deep backlog of foreclosures at the banks is causing the uptick. Foreclosure counselors are



seeing a growing number of cases in which homeowners are in arrears by 2, 3, and 4 years, due to banks holding off on final foreclosure action. This indicates a backlog of properties yet to foreclose, which may impact the market for months or years and depress home prices further.

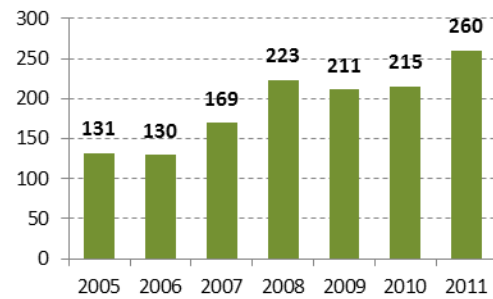
- 5,851 homes foreclosed this quarter in Minnesota, as measured by sheriffs' sales, up 9% from last quarter. The increase was entirely in the wider Twin Cities metro area.
- The 60+ day delinquency rate of primary mortgages fell slightly to 5.6%, marking a year and a half of ongoing improvement. At its highest, this rate reached 8.1% in late 2009.
- About 13,400 pre-foreclosure notices were sent to the Minnesota Home Ownership Center this quarter, down 8% from last quarter and 21% from a year ago.
- In June of 2011, the median home sale price for the Twin Cities metro was down 12% year-to-date compared to 2010.

Homelessness

Unfortunately, both homelessness indicators tracked in the 2x4 Report mark serious increases. Given that in the second quarter, unemployment was down and weekly earnings were up, economic improvements are failing to reaching the Minnesotans most in need. Another contributor was the North Minneapolis tornado in late May that left dozens of families homeless in its wake. Both the number of families seeking shelter in Hennepin County contracted shelters and the number of homeless children increased over last year.

- The average number of families counted as homeless each month by Hennepin County shelters rose to 260 this quarter. This represents an increase of 21% in a single year, and is double the count from 2006.
- 8,297 children and youth were identified as homeless by Minneapolis and St. Paul public schools combined from July 2010 through June 2011. This figure is up 8% from last school year and 18% from 2007-8, the first year for which there is comparable data.

Average Number of Homeless Families per Month, 2nd Quarter, Hennepin Co.



Source: Hennepin County

Housing Industry

In the housing industry, the second quarter is typically a time of rapid growth, as the ground thaws and the work of construction and sales begins anew. This quarter was typical in that more homes went on the market and some people were back to work in housing construction. However, employment in residential construction hit a new 19-year low for the second quarter, hardly the norm. The inventory of homes on the market in the Twin Cities was up somewhat this quarter, as expected seasonally, but was lower than last year at this time. The inventory exceeded the "balanced" level of 5 to 6 months, indicating that the housing market has yet to reach equilibrium.

- Quarterly employment in residential housing construction averaged 8,200 jobs per month, the lowest since 1992 - a 19 year low. In 2005, this number was nearly 18,000.
- The inventory of homes on the market in the Twin Cities was 13% lower than last year at this time. However, the months of inventory stood at 8 months-- about the same as last year. Together, this reflects fewer homes for sale, but fewer homes being bought.

For technical notes, visit <http://mhponline.org/publications/reports-and-research/2x4-report>.



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Blogs MHP Connect Twin Cities Rents at Risk of Rising

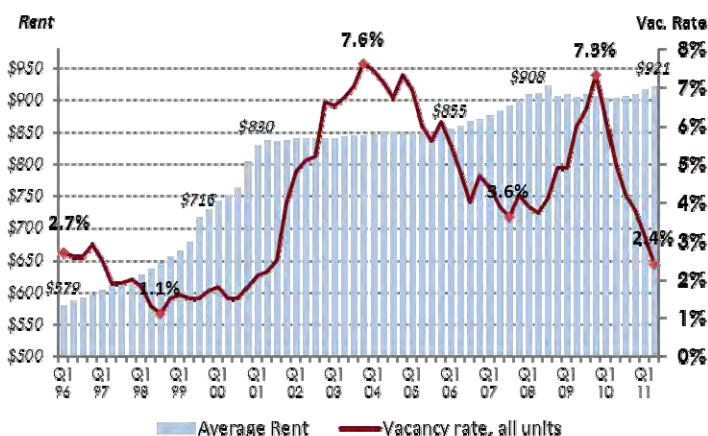
Search...

Twin Cities Rents at Risk of Rising

Aug 17 | 15:48

If you've been following the rental market in the Twin Cities, you probably saw the headlines about a month ago that apartment vacancy rates dove down to 2.4% last quarter- a low not seen in many years. To find out just how long it's been, MHP looked to the historical data of Marquette Advisors (formerly GVA Marquette). What we found when we plotted the data surprised us, and spells concern for rental affordability.

Twin Cities Average Rents and Vacancy Rates, 1996-2011



Data Source: Marquette Advisors/GVA Marquette

First, looking at the data over the last fifteen years, vacancy rates have hit both high and low notes, ranging from 1.1% in the middle of 1998 to well over 7% in 2003 and 2004 and again in 2009. Yet average rents have sung a different tune: they have risen or stagnated, but haven't usually fallen much, even during times of high vacancy rates. (The one-quarter exception was in late in 2008 as the recession hit.)

Secondly, economic trends have an enormous impact on the rental market. Whether the 1990s boom years, the rise and bursting of the home ownership bubble, or the recent recession, each one makes its mark in the rental market. Here's a rundown of the trends.

- **1990s through 2000:** Tremendous economic expansion fueled a shortage of workforce housing and high demand for rentals, with ongoing low vacancy rates and rising rental costs.
- **2001:** A mild recession in March-November 2001 drove down rental demand.
- **2002-3:** In 2002 vacancies rose with a post-recession recovery, as they often do, before economic improvements filter down to individual level. The upscale rental market built up in previous years saw significant vacancy as "favorable" homebuyer mortgages become available.
- **2003-6:** Massive numbers of people flocked to home ownership, riding the housing bubble wave of easy credit and little money down. 2005-6 marked the peak years for homeownership. However, rental vacancy rates fell, with strong job growth causing rental demand to rise. Some rental units were converted to condos, trimming supply.
- **2007:** Housing bubble crash in full force. New construction fell; rental supply tightened some.
- **2008-9:** Great Recession; rental market slackened dramatically. Many families and singles that would otherwise have been living on their own doubled up. Many young people delayed forming independent households. (Meanwhile, foreclosures continued.)
- **2010-present:** With limited economic recovery, the great backlog of rental demand rears its head. Tens of thousands of foreclosed former homeowners seek new housing, and a backlog of households form or leave doubled up situations. Very limited multi-family construction since 2006 (see page 3) contributes to tight rental supply.



Events

The Metropolitan Council seeks a **Housing Policy Planning Analyst**.

Environmental Review and the HOME Program training, Sept. 14-15, Roseville, MN. Sponsored by MHP.

New Suburban Homeless Youth Program Info Sessions, Sept. 15, 19, 20, 22.

Minnesota NAHRO 2011 Annual Conference, Sept. 21-23.

Infrastructure for Compact Development in the Suburbs: Solving Funding and Coordination Challenges, Oct. 11. Sponsored by ULI.

Connecting the Dots, Nov. 5, Duluth. Presented by Duluth LISC and At Home in Duluth.

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So where does this leave us looking forward from mid-2011? The housing market has been anything but predictable in recent years. But with a 2.4% vacancy rate during a "modest" economic recovery, thousands of foreclosures yet to occur, and limited rental construction, we'd wager that renters will be seeing higher rents in the coming months, unless unemployment rises markedly.

Either way, the situation is concerning, especially for lower income renters. Over **two-thirds of Twin Cities renter households** earning under \$50,000 pay more of their income than is considered affordable by HUD.

It's a good reminder of the importance of considering rental housing as government leaders think through options to promote economic growth and jobs.

Of note, both Minnesota Housing and the Metropolitan Council are in the midst of creating housing plans for the years ahead. Minnesota Housing is working on its Affordable Housing Plan for 2012 (to be adopted in October), as well as on a 5-year Consolidated Plan with DEED and DHS for allocation of federal funds for community development. The "Con Plan" will be adopted in January 2012. The Met Council will also soon be working on a housing plan, likely to carry beyond 2012.

Having these plans in process presents an opportunity to remind policymakers of the importance of ensuring decent rental options, especially for low-income folks. This could include dedicating funds to build or rehab affordable rental housing, ensuring fair treatment of renters, and preserving existing affordable units.

It's a good time to voice your concerns and ideas by contacting local elected officials, state legislators, and members of Congress. Contact MHP to find out how you can follow and participate in the planning processes underway.

Coming soon: look for another blog post about providing input on the Con Plan through an online survey.

Add comment

Name (required)

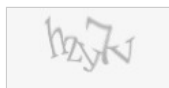
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Housing Affordability Trends by Region

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Twin Cities Metro

Twin Cities area residents face high housing costs, both for owners and renters, compared to incomes. The problem has worsened in recent years. By 2009, over 14% of all area households, or one in seven, paid more than half of their income for housing. At this level of housing cost burden, families often must make difficult choices between paying for housing and other necessities such as transportation, food, and prescription medicines.

Reports & Research

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Trends in housing, jobs, and more over the long-term, based on research by MHP and other Minnesota non-profits.

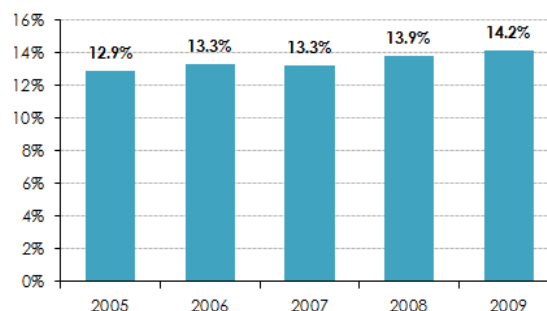


Number of Households Paying at Least Half of Income for Housing, Twin Cities Metro



Source: American Community Survey, 1-year estimates

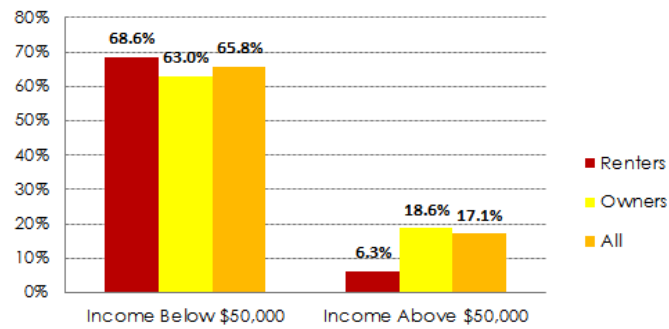
Share of Households Paying at Least Half of Income for Housing, Twin Cities Metro



Source: American Community Survey, 1-year estimates

About 93,000 owner households and 83,000 renter households now pay more than half of their income for housing in the Metro area. 16% more owners and 10% more renters experienced this level of housing cost burden in 2009 compared to 2005, though the increase since 2000 has been even more dramatic. The burden falls especially heavily on lower-income area residents. About two-thirds of households earning less than \$50,000 per year pay more than they can comfortably afford for housing, according to HUD guidelines, compared to about 1 in 6 households with incomes above \$50,000.

Proportion of Households Paying 30% or More of Income for Housing, Twin Cities Metro, 2009

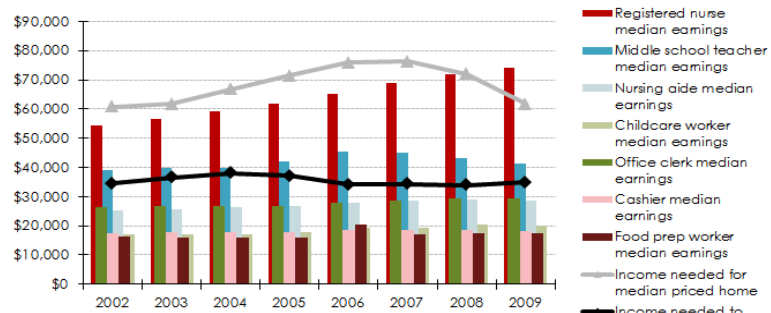


Source: American Community Survey, 1-year estimates

Median Household Income, 2009: \$63,114

Median Renter Household Income, 2009: \$31,248

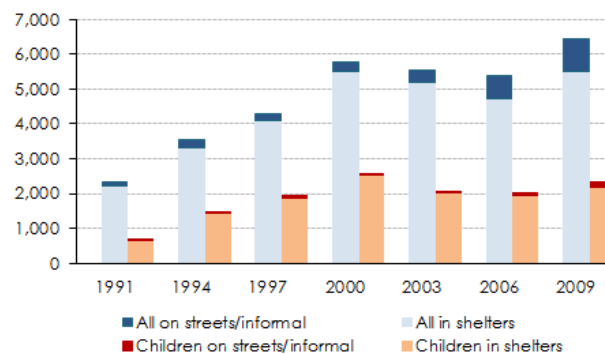
Housing Affordability by Common and Essential Service Occupations, Twin Cities Metro



Sources: Occupational Employment Survey (OES), Minnesota Department of Revenue Sale Ratio Study, Mortgage Interest Rate Survey (MIRS), HUD Fair Market Rents.

Homelessness has grown dramatically in the Twin Cities area. By 2009, over 6,400 people were counted as homeless on a given night, compared to 5,400 in 2006 and many fewer in the 1990s.

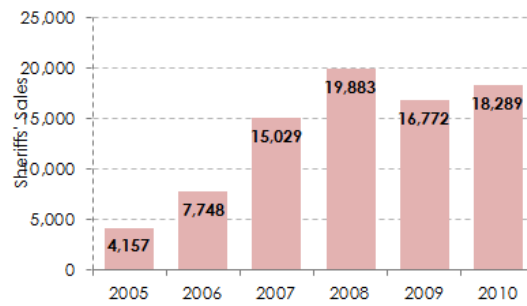
People Identified as Homeless on a Single Night, Twin Cities Metro



Source: Wilder Research, 7-county metro area. Note: outreach to streets and informal arrangements increased beginning in 2006.

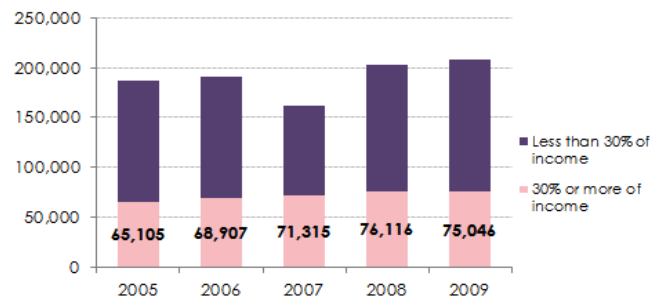
In the Twin Cities metro area, the foreclosure crisis has resulted in almost 82,000 foreclosures in the 11-county metro (71,000 in the 7-county metro) from 2005 through 2010, leaving in its wake severe distress for families. Neighborhoods have been devastated in hard-hit areas.

Foreclosures, Minneapolis-St. Paul Metro



Source: HousingLink

Income Paid for Housing by Households Headed by Senior Citizens 65+, Twin Cities Metro



Source: American Community Survey, 1-year estimates

Technical information on these charts can be found [here](#).



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Chapter 15

Community development and redevelopment

This chapter describes the requirements for a city to establish criteria for awarding business subsidies, addresses the various development agencies cities may create, and provides a brief overview of state and federally sponsored programs for encouraging development and redevelopment. Most economic development tools can be applied to any size city. These tools are interrelated, and a city may use several for one project.

I. Business subsidies or financial assistance

A. Business subsidies

Minn. Stat. §§ 116J.993 to 116J.995.

Minn. Stat. § 116J.993, subd. 3.

State law defines “business subsidy” or “subsidy” as a state or local government agency grant, contribution of personal property, real property, infrastructure, the principal amount of a loan at rates below those commercially available to the recipient, any reduction or deferral of any tax or any fee, any guarantee of any payment under any loan, lease, or other obligation, or any preferential use of government facilities given to a business in an amount greater than \$150,000.

Minn. Stat. § 116J.994, subds. 5, 11.

Minnesota Department of Employment and Economic Development (DEED).

Prior to awarding a business subsidy of more than \$150,000 (and as defined by law) to any business, a city and any Housing and Redevelopment Authority (HRA), Economic Development Authority (EDA), port authority, and nonprofit created by a local government must hold a public hearing and adopt criteria for awarding business subsidies. The public hearing notice must include a statement that either a resident or a city property owner may file a written complaint with the city if the city does not follow the business subsidy law. Written complaints must be filed within specified timelines. The criteria must include a policy regarding the wages to be paid for any jobs created. Copies of the criteria adopted by cities are found on the Minnesota Department of Employment and Economic Development (DEED) web site

Minn. Stat. § 116J.994, subd. 3.

Once the criteria are established, the grantor and the recipient must enter into subsidy agreements that meet the statutory requirements. The agreement must include an obligation to repay part or the entire subsidy if the recipient does not meet its obligations.

Minn. Stat. § 116J.993, subd. 3.
Minn. Stat. § 469.185.

Types of assistance meeting the definition of a business subsidy include: grants; contributions of real or personal property or infrastructure; the principal amount of a loan at rates below those commercially available to the recipient; any reduction or deferral of any tax or any fee; any guarantee of any payment under any loan, lease or other obligation; or any preferential use of government facilities given to a business.

Minn. Stat. § 116J.994, subd. 11.

The law imposes a 180-day statute of limitations on actions to challenge a city after approval of a business subsidy agreement. Citizens or owners of taxable property in a city may bring a civil action against the city for failure to comply with the business subsidy laws. Cities should therefore consult closely with the city attorney before awarding a business subsidy.

Minn. Stat. § 116J.993, subd. 3.

There are several exceptions to this definition, including a subsidy of less than \$150,000; subsidies for redevelopment, pollution control and land clean up, housing, industrial revenue bonds, utility property tax abatements and other similar programs.

Minn. Stat. § 116J.994, subds. 4, 7, 8.

Recipients must provide grantors with information on their progress toward the goals outlined in the agreement. The goals for increasing jobs or retaining jobs must result in local job creation and job retention. Grantors must submit the annual Minnesota Business Assistance Form (MBAF) to the Department of Employment and Economic Development (DEED) by April 1 each year for each business subsidy agreement. Local government agencies in cities with a population of 2,500 or more must submit an MBAF, regardless of whether they have awarded business subsidies. Local government agencies in cities with a population of 2,500 or less are exempt from filing the MBAF if they have not awarded a subsidy in the past five years.

B. Financial assistance

Minn. Stat. § 116J.994, subd. 2.
Minn. Stat. § 116J.994, subd. 8.

Cities may offer “financial assistance” in the form of a business loan of more than \$25,000 or a guarantee of \$75,000 or more, but less than \$150,000 required to constitute a business subsidy. If a city offers such financial assistance it must develop criteria and set minimum wage floor levels as prescribed in business subsidy law. Cities granting such financial assistance must submit business assistance reports to the Department of Employment and Economic Development (DEED) within one year of granting the assistance.

II. City development tools

A. General city development powers

Minn. Stat. § 469.041.

Cities have authority to aid and cooperate in the planning, construction, or operation of economic development, and housing and redevelopment projects. The following is a partial list of actions cities may take, with or without compensation:

- Dedicate, sell, convey, or lease any of its interests in any property or grant easements, licenses, or any other rights or privileges to an HRA.
- Furnish parks, playgrounds, recreational, community education, water, sewer, and drainage facilities or other works adjacent to or in connection with housing and redevelopment projects.
- Grant a partial tax exemption of up to 50 percent of all local taxes for housing projects in a redevelopment district.

Minn. Stat. § 469.043, subd. 2.

Minn. Stat. § 469.192.

A statutory city, home rule charter city, economic development authority, housing and redevelopment authority, or port authority may make a loan to a business, a for-profit or nonprofit organization, or an individual for any purpose the entity is otherwise authorized to carry out under any of the laws cited.

Judd Supply Co. v. Merchants & Mfgs. Ins. Co., 448 N.W.2d 895 (Minn. Ct. App. 1989).

Private development projects that receive public financial or other assistance will not necessarily become public projects that trigger competitive bidding or other state laws applicable to public works.

B. Housing and redevelopment authorities

The predominant method of delivering and administering housing and redevelopment programs in Minnesota is through a legal public agency, accountable to city government. A city may establish this public agency, which is often the HRA. There are more than 230 HRAs in Minnesota.

1. Elements of an HRA

Minn. Stat. §§ 469.001 to 469.047. Minn. Stat. § 469.003.

An HRA is a public corporation with power to undertake certain types of housing and redevelopment or renewal activities. While state legislation conveys authority for housing and redevelopment in each city, it is up to the city council to formally establish an HRA before it can do business and use its powers. Once a council legally establishes an HRA, it may undertake certain types of planning and community development activities on its own with council approval.

Minn. Stat. § 469.003, subd. 1.

To create a housing and redevelopment authority, the city council must, by resolution, make the following findings required by law:

- Substandard, slum or blighted areas that cannot be redeveloped without governmental assistance; or,
- A shortage of affordable, decent, safe, and sanitary dwelling accommodations available to low-income individuals and families.

Minn. Stat. § 469.003, subds. 2, 4.

The council must pass this resolution after a public hearing. A copy of this resolution must go to the commissioner of DEED.

2. Area of operation for an HRA

Minn. Stat. § 469.004, subds. 1, 2.

The area of operation of a city HRA is the corporate limits of the city. County and multi-county HRAs operate in areas that include all the political subdivisions within the county or counties, except they may not undertake any project within the boundaries of a city that has not adopted a resolution authorizing the county or multi-county HRA to exercise powers within that city.

Minn. Stat. § 469.004, subd. 5.

Establishment of a county or multi-county HRA precludes the formation of city HRAs, unless the county or multi-county HRA and the commissioner of DEED agree to let the city form one.

3. HRA membership

Minn. Stat. § 469.003, subd. 6.

An HRA consists of five commissioners who are residents of the city. The mayor appoints and the council approves the members who serve five-year, staggered terms. City councilmembers often serve on the HRA. The entire membership of an HRA may consist of councilmembers.

24 C.F.R. 964.415.

Federal regulations require that at least one eligible resident be a member of a public housing agency board, which may be the HRA, an EDA or other public housing authority (PHA). This rule applies to any public housing agency that holds a public housing annual contributions contract with HUD or that administers Section 8 tenant-based rental assistance. The rule does not apply to state-financed public housing projects or Section 8 project-based assistance. A “small PHA exception” also exists.

Minn. Stat. § 469.003, subd. 7.

The city clerk must file a certificate of appointment for each commissioner of a city HRA and send a certified copy to the commissioner of DEED.

Minn. Stat. § 469.011, subd. 2.
Minn. Stat. § 469.011, subd. 4.

State law allows the HRA to adopt bylaws. Commissioners may accept compensation of up to \$75 for each meeting they attend. Commissioners who are elected officials may receive daily payment for a particular day only if they do not receive any other daily payment for public service on that day. Commissioners who are public employees may not receive daily payment, but may not suffer loss in compensation or benefits as a result of their service.

4. HRA powers

Minn. Stat. § 469.012, subd. 1.

An HRA is primarily responsible for the planning and implementation of redevelopment and/or low-rent housing assistance programs within its area of operation. An HRA has all the powers necessary to carry out the state HRA Act, including but not limited to the following powers:

- To sue and be sued.
- To employ staff and an executive director.
- To undertake projects within its area of operation and to provide for the construction, reconstruction, improvement, extension, alteration, or repair of any project or part of a project.

- To sell, buy, own, and lease property by any means necessary, including the power of eminent domain.
- To cooperate with and use state and federal financial assistance programs.
- To develop rehabilitation and code enforcement techniques.
- To issue bonds for any of its corporate purposes backed by the pledge of revenues, grants or other contributions.
- To implement renewal or redevelopment programs using tax increment financing.
- To own, hold, improve, lease, sell or dispose of real or personal property.
- To designate substandard, slum or deteriorating areas needing redevelopment, and unsafe, unsanitary, and overcrowded housing.
- To make necessary expenditures to carry out the purposes of the HRA law.
- To develop and administer an interest reduction program to assist the financing of the construction, rehabilitation, or purchase of low- or moderate-income housing.

5. HRA special assessment and levy authority

Minn. Stat. § 469.001 – 469.047.

Minn. Stat. § 469.033, subd. 6.

Minn. Stat. § 275.70 to 275.74.

Minn. Stat. § 275.066.

HRA power to levy and collect taxes or special assessments is limited to the power provided in state law. Subject to a resolution of consent from the city council an HRA may levy a tax upon all taxable property within the city. (The council may give a consent that covers a series of years if they so choose or council may pass a resolution authorizing an HRA levy for a set amount of time, for example, the entire term of the bonds secured in part by an HRA levy and in part by a city levy.) State law recognizes the distinct nature of HRAs and designates them as “special taxing districts.” The maximum general allowable operational levy of HRAs is 0.0185 percent of the previous year’s taxable market value of all property in the city. The city’s total taxable market value is available from the county assessor. An HRA raises its own levy because it is a separate political subdivision and not a “local governmental unit.” Therefore, an HRA levy is not subject to levy limits but is subject to the 0.0185 percent market value limit. Levies collected by an HRA must be used only for purposes listed in the HRA Act.

Minn. Stat. § 469.107.

Minn. Stat. § 275.066.

There is crossover between HRA and EDA levies that can be confusing. Typically, EDAs are not authorized to levy taxes under state law. However, many city EDA-enabling resolutions adopt all the powers of an HRA, and then the EDA functions as a special taxing district under state law. If the enabling resolution so allows, the EDA levies a separate tax or “HRA levy” not subject to levy limits or city debt limits—but again subject to the 0.0185 percent of total city market value limit in state law. The city attorney may verify the structure and levy authority of each city’s HRA and/or EDA.

Minn. Stat. § 469.012, subd. 4.
Minn. Stat. § 469.028.

While HRAs have the legal authority to “do whatever is necessary and convenient” to implement redevelopment, they are subject to the ordinances and laws of the city. The city council must approve HRA plans before the housing and redevelopment authority may begin implementation.

6. HRA contracting

Minn. Stat. § 469.015. Minn.
Stat. § 469.015 subd. 1a.

All HRA construction work and purchases of equipment, supplies or materials that involve expenditure of more than \$100,000 must be competitively bid. An HRA (and a city) may also use the “best value alternative.” There are limited exceptions to these requirements for emergencies and certain projects, such as parking ramps and certain public transit facilities.

7. HRA financing

Minn. Stat. §§ 469.033 and
469.034.

Operating funds, capital improvements, and debt retirement expenses for HRA projects may be financed by any one, or combination of, the following methods:

- Federal grants.
- Revenue bonds the HRA or local governing body sells.
- General obligation bonds the local governing body sells.
- Tax increments from redevelopment projects.
- A limited mill levy for redevelopment projects and planning activities.
- A limited mill levy for informational and relocation services.

Minn. Stat. § 429.034, subd. 1.

When an HRA issues bonds, the revenue generated must be used for the projects financed, or bond costs must be paid from income generated by designated projects. The law states that the principal and interest on bonds are payable exclusively from the income and revenues of the project financed with the proceeds of the bonds, or exclusively from the income and revenues of certain designated projects, whether or not they are financed in whole or in part with the proceeds of the bonds.

8. HRA certifications to state

The following documents relating to the establishment and activities of local HRAs must go to the DEED commissioner:

Minn. Stat. § 469.003, subds. 4,
6.

Minn. Stat. § 469.003, subd. 7.

- Resolution of need.
- Certificates of appointment or reappointment of HRA commissioners.
- Project reports.
- Applications for federal assistance.
- Contracts with federal agencies.

- Redevelopment plans.
- Low rent public housing project and management plans.

Minn. Stat. § 469.013.

In addition, annual financial reports must go to the state auditor.

9. HRA federal certification

In order for a local HRA to use federal Department of Housing and Urban Development (HUD) assistance programs, it must submit a transcript of organizational documents to the HUD area office.

C. Economic development authorities

Minn. Stat. §§ 469.090 to 469.1082.

2010 Minn. Laws ch. 387, art. 1, § 25 amending Minn. Stat. § 469.1082, subd. 5.

The Economic Development Authorities Handbook. For a copy of this book, and for sample resolutions and by laws for an EDA, contact the [League's Research Department](#) at (651) 281-1220 or (800) 925-1122.

All cities and townships have authority from the state Legislature to create economic development authorities. The city may consolidate the economic development authority (EDA) with an existing HRA or the city may grant the authority HRA powers. The city council may create an EDA by passing an enabling resolution. Before adopting the enabling resolution, the city must first conduct a public hearing. The enabling resolution establishes a board of commissioners for the EDA. The city council can choose to serve as the EDA board of commissioners or create a board composed of community members. The mayor, with approval of the council, appoints the commissioners. The board may consist of three, five or seven members who serve six-year terms. The board is subject to the open meeting law.

1. EDA levies

Minn. Stat. § 275.70.

Minn. Stat. § 275.066.

The typical EDA levy is different than the HRA levy discussed above. It is not a levy raised by the EDA—it is a levy set by a city at the request of the EDA. Basically, the city simply appropriates part of the money the city collects in the general city levy to the EDA. Because the EDA levy is part of the city levy, it is not a “special levy” under state law and thus the EDA levy is subject to the city’s overall levy limit. However, as noted above, many EDA-enabling resolutions adopt all the powers of an HRA. If so, the EDA may levy a separate tax or “HRA levy,” and then the EDA functions as a special taxing district as if it were an HRA and that levy is not subject to levy limits or to city debt limits. An EDA using the levy powers of an HRA is still limited to a levy no more than 0.0185 percent of the total taxable market value in the city.

2. EDA loans

Minn. Stat. § 469.192.

Minn. Stat. §§ 469.090 to 469.1082.

Minn. Stat. § 469.098.

An EDA is authorized to make a loan to a business, a for-profit or nonprofit organization, or an individual. Before taking an action or making a decision which could substantially affect an EDA commissioner's or an employee's financial interests or those of an organization with which the commissioner or an employee is associated, a commissioner or employee of an authority must comply with specific requirements to disclose the conflict and obtain prior approval. Failure to do so may result in criminal charges.

Loans must be for a purpose the EDA is authorized to carry out under the law. An authorized purpose must deal with or contribute to economic or industrial development. EDAs have the ability to use pooled bond reserving. In most development programs, each bond issue is independent of any other bond issue with a separate service or sinking fund account. EDAs, however, may create a single common bond reserve fund. Under this arrangement, each project's revenues go into a common fund, which in turn pays the bondholders on all projects.

Through this pooling mechanism, the security of each project's bond increases and borrowing costs decrease as long as the pool has the necessary volume and diversity of cash flow.

3. Other EDA powers

Minn. Stat. § 469.101, subds 1, 2.

2010 Minn. Laws ch. 389, art. 7, § 5 *amending* Minn. Stat. § 469.101, subd. 1.

"Bill Summary H.F. 3729" House Research Department (May 16, 2010).

Minn. Stat. § 469.102.

EDAs can acquire property and facilities but cannot issue debt without an election. The city must authorize the issuance of debt in the resolution creating the EDA. Also, EDAs can create economic development districts but the districts must be contiguous. Current law eliminates the requirements that economic development districts established by EDAs meet the "blight test" under tax increment financing law for redevelopment districts. EDAs may exercise powers under the housing and redevelopment authority (HRA) law (if a particular EDA enabling resolution includes HRA power) to create a redevelopment project, housing development, or housing project under which a restrictive blight test does not apply. These projects can be used for similar purposes to those of an economic development district under the EDA law.

D. Port authorities

Minn. Stat. §§ 469.048- 469.068.
Minn. Stat. § 469.053.

The state Legislature authorizes city creation of port authorities. A port authority is a separate political entity with the right to sue and be sued in its own name and is generally organized to increase commerce in a city. Unlike EDAs and HRAs, a port authority may issue general obligation bonds without holding an election.

Minn. Stat. § 469.050. Minn. Stat. § 469.051.

Cities establish a port authority by passing an enabling resolution. It may have from three to seven commissioners (two of whom must be on the city council) appointed by the mayor and approved by the city council, unless a different number or procedure is set out in the enabling law. State law governs commissioner pay, vacancies, duties, and port authority by-laws.

Minn. Stat. § 469.051, subd. 2.

A port authority shall annually elect a president or chair, vice-president or vice-chair, treasurer, secretary, and assistant treasurer. A commissioner may not serve as president or chair and vice-president or vice-chair at the same time. The other offices may be held by one commissioner. The offices of secretary and assistant treasurer need not be held by a commissioner.

The treasurer of a port authority must be bonded to faithfully perform these duties:

- Receive and be responsible for port authority money.
- Be responsible for the acts of the assistant treasurer, if appointed.
- Disburse port authority money by check or electronic procedures.
- Keep an account of the source of all receipts, and the nature, purpose, and authority of all disbursements.
- File the authority's detailed financial statement with its secretary at least once a year at times set by the authority.

Minn. Stat. § 469.051, subd. 9.

The port authority's annual detailed financial statement must show all receipts and disbursements, their nature, the money on hand, the purposes to which the money on hand is to be applied, the authority's credits and assets, and its outstanding liabilities. The authority must examine the statement together with the treasurer's vouchers. If the authority finds the statement and vouchers correct, it shall approve them by resolution and record the resolution.

Minn. Stat. §§ 469.048–469.068.

State law governs many other aspects of port authorities, including but not limited to use of city property by a port authority, employees, contracts, and audits. The city attorney also acts as the port authority's attorney.

E. Municipal or area redevelopment agencies

Minn. Stat. §§ 469.109 to 469.123.

Any rural municipality or group of municipalities may establish a public body, known as a municipal or area redevelopment agency, in and for the area the municipality covers. This law defines municipalities as home rule charter or statutory cities, counties, towns or school districts.

Minn. Stat. § 469.110, subd. 11.
Minn. Stat. § 469.111.

The law includes only rural areas, which generally means all areas that are not within the boundary of any city having a population of 50,000 or more, and not immediately adjacent to urbanized and urbanizing areas with a population density of more than 100 persons per square mile—or areas with an unemployment rate of 6 percent or more. The restrictions limit applicability of the law to rural areas and to the Iron Range.

Minn. Stat. § 469.111.

Minn. Stat. § 469.115.

The establishment of the municipal or area redevelopment agency is similar to the establishment of an HRA. A municipal or area redevelopment agency has similar powers to an HRA.

F. City development districts

Minn. Stat. §§ 469.124 to 469.134.

Any home rule charter or statutory city may designate development districts within the boundaries of the city. Within these districts, cities may:

- Adopt a development program to acquire, construct, reconstruct, improve, alter, extend, operate, maintain or promote developments aimed at improving the physical facilities, quality of life, and quality of transportation.

- Promote pedestrian skyway systems.
- Install special lighting systems, street signs and street furniture, landscaping of streets and public property, and snow removal systems.

Minn. Stat. § 469.127.

The law encourages pedestrian skyway systems, underground pedestrian concourses, people-mover systems, and publicly-owned parking structures. It exempts these structures from taxation even when they are attached to privately-owned buildings.

G. City industrial development

Minn. Stat. §§ 469.152 to 469.1651.

Minn. Stat. § 469.152.

For the purpose of attracting industrial and commercial development and encouraging local governments to prevent economic deterioration, any home rule charter or statutory city or its redevelopment agency has the power to promote industrial development by:

- Acquiring, constructing, and holding lands, buildings, easements, improvements to lands and buildings, capital equipment, and inventory for industrial projects.
- Issuing revenue bonds and entering into revenue agreements to finance these activities to promote industrial projects.
- Refinancing health care and other facilities.

Minn. Stat. § 469.155, subd. 4.

Under the legislation, cities assist industries in starting operations and use generated revenues to repay the costs. This law is the basis for issuing most industrial revenue bonds.

2010 Minn. Laws ch. 216, § 24 amending Minn. Stat. § 469.153, subd. 2.

Industrial projects eligible for assistance include any revenue-producing enterprises engaged in assembling, fabricating, manufacturing, mixing, processing, storing, warehousing, or distributing any products of agriculture, forestry, mining, or manufacturing; or in research and development activity in these fields; or in the manufacturing, creation, or production of intangible property, including any patent, copyright, formula, process, design, know how, format, or other similar item. "Project" also includes any properties designated as a qualified green building and sustainable design project under state law. Eligible projects may include costs related to dewatering activities.

2010 Minn. Laws ch. 216, § 26 to be codified as Minn. Stat. § 469.1655.

Minn. Stat. § 469.155, subd. 14.

The law prohibits a city from operating any of these projects as a business or in any other manner.

III. Other development strategies

A. Housing bonds

[Minn. Stat. ch. 462C.](#)

Cities may use revenue bonds for financing single- and multi-family housing, primarily for the benefit of low- and moderate-income families. The law contains single- and multi-family housing criteria and the specific actions cities must take to comply with the law. Federal law limits the issuance of housing revenue bonds. Bonding authority is allocated by a state formula.

B. Industrial parks

An industrial park is a tract of land suitable for industrial use because of location, topography, proper zoning, availability to utilities, and accessibility to transportation. A single body has administrative control of the tract. In some cities, an industrial park may be little more than a tract of unimproved land, while in other cities it may be totally served by city services and have restrictive building requirements. An industrial park's purpose is to attract industrial development.

Property a city holds for later sale for economic development purposes remains tax exempt for a period of eight years, or until buildings or other improvements that are constructed after acquisition reach one-half occupancy.

Currently, private enterprise creates most new industrial park development by establishing a for-profit community development corporation. A city can cooperate with that corporation through its land-use controls and methods of financing public improvements. Many cities have also established industrial parks complete with streets, water, and sewer, in spite of the possible tax ramifications. The city then sells or leases a portion of the park to a business needing a location for its building.

[Minn. Stat. § 469.185.](#)

[Minn. Stat. § 465.035.](#)

[A.G. Op. 476-B-2 \(Mar. 2, 1961\).](#)
[City of Pipestone v. Madsen, 287](#)
[Minn. 357, 178 N.W.2d 594](#)
[\(1970\).](#)

The law authorizes any city owning lands that are not restricted by deed to convey the lands for nominal consideration, to encourage and promote industry, and to provide employment for citizens. In finding that a conveyance of land for an indoor arena was not within the statute, the attorney general concluded the conveyance must encourage and promote industry and provide employment for citizens. A more direct promotion of industry is necessary, beyond the fact that more potential customers might be in town as a result of athletic contests. However, the courts have upheld the municipal industrial development revenue bond law, discussed subsequently, against the same objection. The city's attorney can best advise the city concerning the legality of a purchase of land for resale.

C. Industrial revenue bonds

Minn. Stat. §§ 469.152 to 469.1651.

The municipal industrial development laws help cities attract new commercial and industrial development, and keep existing businesses in the city. The law authorizes the council to issue revenue bonds, and use the proceeds to acquire and construct industrial sites and facilities. The city then leases these facilities to private industry and uses the rental fee proceeds to retire the bonds.

A city may issue industrial revenue bonds, also known as municipal revenue bonds, without public referendum. It cannot pledge the full faith and credit of a community as security for these bonds. Thus, the city may not tax property owners to pay principal and interest on the bonds.

For more information, contact DEED 651.259.7114, 800.657.3858 or 888.438.5627. Main Office: 1st National Bank Building 332 Minnesota Street, Suite E200 Saint Paul, MN 55101-1351.

If a city decides to investigate the use of industrial bond financing, it should contact the Department of Employment and Economic Development. The department provides the city with information, advice, and technical assistance. This assistance is important, due to the adoption of federal and state laws allocating issuance authority among the states and their political subdivisions. The commissioner of Securities must approve the project.

D. Commercial rehabilitation

Minn. Stat. § 469.184.

Cities have authority to carry out programs for the rehabilitation of small- and medium-sized commercial buildings. The city must adopt a program ordinance that provides for the adoption of program regulations, including a definition of small- and medium-sized commercial buildings. Loans under the program may be for amounts up to \$200,000. The city may finance the program through the sale of revenue bonds.

E. Tax increment financing (TIF)

Minn. Stat. §§ 469.174 to 469.1799.

Tax increment financing authority is available to most cities. Cities with housing and redevelopment authorities, economic development authorities, port authorities, redevelopment agencies, those cities administering development districts or development projects, or cities exercising port authority powers under a general or special law may use tax increment financing. Amendments to the law, however, may make the use of this development tool more complicated.

Tax increment financing is a funding technique that takes advantage of the increases in tax capacity and property taxes from development or redevelopment to pay upfront public development or redevelopment costs. The difference in the tax capacity and the tax revenues the property generates after new construction has occurred, compared with the tax capacity and tax revenues it generated before the construction, is the captured value. The taxes paid on the captured value are called “increments.” Unlike property taxes, increments are not used to pay for the general costs of cities, counties, and schools. Instead, increments go to the development authority and are used to repay public indebtedness or current costs the city incurred in acquiring the property, removing existing structures or installing public services.

Thus, the property owner in a TIF district continues to pay the full amount of property taxes. TIF involves only the increased property taxes generated within the district. It does not change the amount of property taxes currently derived from the redevelopment area, nor does it directly affect the amount or rate of general ad valorem taxes the city levies. The result of a TIF project is an increased tax base that will benefit all local taxing jurisdictions. Additionally, TIF districts usually spur economic development and redevelopment through creating job, removing blight, and providing more affordable housing.

State. v. Wicklund, 589 N.W.2d 793 (Minn. 1999) .

TIF is used to encourage four general types of private development: redevelopment, renovation and renewal, growth in low- to moderate-income housing, and economic development. Public financing using TIF funding for a privately owned facility does not make public space in the facility a public forum for free speech purposes.

2010 Minn. Laws ch. 216, § 26 amending Minn. Stat. § 469.174; 2010 Minn. Laws ch. 216, § 28 amending Minn. Stat. § 469.175 adding subd. 2a; 2010 Minn. Laws ch. 216, § 29 amending Minn. Stat. § 469.176, subd. 1b; 2010 Minn. Laws ch. 216, § 30 amending Minn. Stat. § 469.176 adding subd. 1i; 2010 Minn. Laws ch. 216, § 31 amending Minn. Stat. § 469.176, subd. 4c. Minn. Stat § 273.13, subd. 24.

A new TIF district involves compact development. Two major conditions must be satisfied:

- Parcels consisting of 70 percent of the area of the district are occupied by buildings or similar structures that are classified as class 3a property under state law. and
- The planned redevelopment or development of the district, when completed, will increase the total square footage of buildings, classified as class 3a under state law, occupying the district by three times or more relative to the square footage of similar buildings occupying the district when the resolution is approved.

The authority to establish or approve a compact development district expires on June 30, 2012.

2010 Minn. Laws ch. 216, § 32 amending Minn. Stat. § 469.176, adding subd. 4m.

Cities have temporary authority to spend TIF funds to stimulate construction using economic development districts for any type of project, if three conditions are met:

- The municipality funds projects that will create new jobs in the state, including construction jobs, and the project otherwise would not have begun before July 1, 2011, without assistance.
- Construction of the project begins no later than July 1, 2011.
- The request for certification is made by June 30, 2011.

This temporary authority to spend the tax increment expires Dec. 31, 2011.

Minn. Stat. § 469.175, subd. 5.

The city using TIF must report annually to the county board, the county auditor, the school board, and the state auditor as to the status of the TIF district or districts and publish the report. The state auditor has established a uniform system of accounting and financial reporting for TIF districts. The city must annually submit to the state auditor a financial report in compliance with these standards.

Minn. Stat. § 469.1771, subds. 1, 2b.

The state auditor may audit TIF districts. If the state auditor notifies a TIF authority of an alleged violation, a copy of the notice is also forwarded to the county attorney. If no corrective action is brought within one year, the county attorney must notify the state auditor, who then notifies the attorney general. If the attorney general finds a substantial violation, the attorney general will petition the state tax court to suspend the authority's power to use TIF for a period of up to five years.

Minn. Stat. § 469.177, subd. 8. *Lake Superior Paper Indus. v. State*, 624 N.W.2d 254 (Minn. 2001). *Brookfield Trade Center, Inc. v. County of Ramsey*, 609 N.W.2d 868 (Minn. 1998).

The TIF agreement with the developer is a complex document. Assistance from a financial advisor and the city attorney is necessary in order to anticipate the many potential problems. An agreement can establish a minimum market value for tax increment assessment purposes, as well as provide that the developer pay a certain level of taxes regardless of any classification rate changes or levy decreases. The agreement should be entered into before the assembly and acquisition of the land on which the completed improvements are to be located.

See Minn. Stat. §§ 469.177, subds. 1b, 11; 469.1771, subd. 1; 469.1791; 469.1793; 469.1799; and 469.1814.

The 2001 tax reform legislation, which reduced class rates and provided for the state takeover of the general education levy, resulted in several changes to various statutes to accommodate the changes. These changes considerably reduce the continued viability of TIF in the future.

Minn. Stat. § 469.174.

The law imposes a 180-day statute of limitations on actions to challenge the creation or modification of a TIF district. The law is complex including a "but-for" finding before a city approves a TIF plan and the creation of a TIF district. Cities must follow statutory requirements as to administrative expenses, plan modifications, reporting requirements, use of increment in pre-1979 districts, excess increments, pool, and decertification, among other things.

Minn. Stat. § 469.175.

Before a district can be created, the law requires a detailed estimate of the impact of a proposed district on city-provided services, such as police and fire protection, public infrastructure, and borrowing costs attributable to the district, in addition to other complex estimations must be prepared.

Walser Auto Sales, Inc. v. City of Richfield, 635 N.W.2d 391 (Minn. Ct. App. 2001), *aff'd*, 644 N.W.2d 425 (Minn. 2002).

Cities should use extreme care in establishing a TIF district and should follow all procedural requirements; otherwise a court may find the district was not properly established. In one case, a TIF district was not properly established where minimal effort was made to ensure the thorough inspection of the properties, inaccurate and unprecedented methodology was used to establish the condition of the buildings, and the buildings found structurally substandard were not reasonably distributed throughout the district.

Chenoweth v. City of New Brighton, 655 N.W.2d 821 (Minn. Ct. App. 2003)

In another case, a cause of action for inverse condemnation does not arise where a city's involvement with an adjacent property owner's development consists of establishing a TIF district, entering into a contract with a private developer specifying the size and value of structures to be built, and providing for substantial city assistance to facilitate development.

Given the complexity of the laws governing the use of TIF, cities or HRAs should not undertake this method of financing community development projects without the advice of an attorney and professional consultants.

F. Property tax abatement

Minn. Stat. §§ 469.1812 to 469.1815.

A city may use this development tool to segregate some or all of the taxes (or the increase in taxes) it imposes on a parcel of property if the city expects the benefits of the proposed abatement agreement to at least equal the costs of the proposed development. The term "abatement" is somewhat misleading, as in most cases the tax is not forgiven; it is paid normally, but the amount of property tax levied by the city is used to pay for the bonds. The city must determine that the agreement is in the public interest because it will increase or preserve tax base, provide employment opportunities, provide or help acquire or construct public facilities, help redevelop or renew blighted areas, or help provide access to services for residents of the city. Property taxes in a TIF district cannot be abated unless the period of the abatement will not occur until after the district is decertified.

A resolution must be adopted after notice and public hearing, specifying the terms of the abatement. A city may issue bonds or other obligations to provide an amount equal to the sum of the abatements granted for a specific property. The maximum principal amount of these bonds may not exceed the estimated sum of the abatements for the property for the years authorized. The bonds may be general obligations of the city if the city council chooses to pledge the full faith and credit of the city in the resolution issuing the bonds. The law limits property tax abatements to 15 years. School districts and counties have similar abatement powers. A city, county, and school district can agree to abate their taxes on the same property.

IV. State-sponsored development tools

A. Minnesota Housing Finance Agency

[Minn. Stat. ch. 462A](#). For more information about [MHFA](#) programs, contact MHFA at 400 Sibley Street Suite 300, St. Paul, MN 55101-1998 (651) 296-7608 or (800) 657-3769.

The goals of the Minnesota Housing Finance Agency (MHFA) are to provide decent, affordable housing to low- and moderate-income people; preserve the existing housing stock in Minnesota; preserve existing neighborhoods and prevent them from deteriorating; and prevent mortgage foreclosures while promoting energy conservation in residential housing.

The Minnesota Legislature created the MHFA in response to a shortage of affordable housing for low- and moderate-income people. Private enterprise and private investment were unable, without public assistance, to provide an adequate supply of safe, sanitary, and decent housing at affordable prices and rents.

[Minn. Stat. § 462A.073 et seq.](#)
MHFA: [Minnesota City Participation Program](#).

The sale of state tax-exempt bonds is the primary financing for MFHA programs. Through the Minnesota City Participation Program, Minnesota Housing sells mortgage revenue bonds on behalf of cities to meet locally identified housing needs. The proceeds of these bonds provide below-market interest rate home mortgage loans for low- and moderate-income, first-time homebuyers, or for the construction or rehabilitation of single- and multi-family housing. Appropriations from the Legislature provide additional funding for programs, including the promotion of energy conservation; an increase in home ownership opportunities for first time homebuyers; home improvement grants to very low-income homeowners; and programs to improve the housing available to Native Americans, large families, and people with disabilities.

B. Department of Employment and Economic Development (DEED)

[Minn. Stat. ch. 116J](#).
[Minnesota Department of Employment and Economic Development](#).

The Minnesota Department of Employment and Economic Development is the primary development agency for Minnesota. DEED staff is responsible for a wide range of grant and loan programs, as well as for providing technical assistance to businesses and communities.

[Minn. Stat. §§ 116J.411 to 116J.424](#).
The [USDA Development](#).

DEED also provides grants for contamination cleanup and redevelopment; administers the rural development program; makes challenge grants to regional organizations to encourage private investment in rural areas; and administers a revolving loan fund to provide loans to new and expanding business in rural Minnesota. Local government units, including cities, may receive these loans if the community has established a local revolving loan fund and can provide at least an equal match to the loan received.

Minn. Stat. § 116J.431.

Greater Minnesota Business
Development Infrastructure Grant
Program.

Cities outside the seven-county metropolitan area may receive grants from DEED for up to 50 percent of the capital costs of public infrastructure necessary for certain specified economic development projects, excluding retail and office space. For this program, “public infrastructure” means publicly owned physical infrastructure necessary to support economic development projects, including but not limited to sewers, water supply systems, utility extensions, streets, wastewater treatment systems, stormwater management systems, and facilities for pretreatment of wastewater to remove phosphorus.

Minn. Stat. § 116J.431, subd. 2.

Under this law, an “economic development project” for which a county or city may be eligible to receive a grant under this section includes manufacturing; technology; warehousing and distribution; research and development; agricultural processing or industrial park development that would be used by any one of these businesses.

2010 Minn. Laws ch. 189, § 39
amending Minn. Stat. § 116J.435,
as amended by 2009 Minn. Laws
ch. 35, §§ 1 and 2, and 2009
Minn. Laws ch. 78, art. 2, § 12.

DEED runs the Innovative Business Development Public Infrastructure (BDPI) program that provides grants to local governmental units on a competitive basis statewide for up to 50 percent of the capital cost of the public infrastructure necessary to expand or retain jobs.

Innovative Business
Development Program:
Department of Employment and
Economic Development.

“Innovative business” means a business that is engaged in, or is committed to engage in, innovation in Minnesota in one of the following:

- Using proprietary technology to add value to a product, process, or service in a high technology field;
- Researching or developing a proprietary product, process, or service in a high technology field;
- Researching, developing, or producing a new proprietary technology for use in the fields of tourism, forestry, mining, transportation, or green manufacturing.

2010 Minn. Laws ch. 189, § 39
amending Minn. Stat. § 116J.435,
as amended by 2009 Minn. Laws
ch. 35, §§ 1 and 2, and 2009
Minn. Laws ch. 78, art. 2, § 12.

“Proprietary technology” means the technical innovations that are unique and legally owned or licensed by a business and includes, without limitation, those innovations that are patented, patent pending, a subject of trade secrets, or copyrighted. “Eligible project” means a bioscience an innovative business development capital improvement project in this state, including:

- Manufacturing; technology; warehousing and distribution; research and development;
- Bioscience innovative business incubator;
- Agricultural bio-processing processing; or industrial, office, or
- Research park development that would be used by a bioscience-based an innovative business.

Minn. Stat. § 272.02, subd. 64.

DEED administers “tax-free” job opportunity building zones (JOBZ). In each of these zones, businesses will be eligible for a broad range of tax incentives for a period of 12 years. Under the program, local units of government, including cities, must submit applications to DEED and follow all statutory requirements related to JOBZ.

C. Enterprise Minnesota

[Minn. Stat. ch. 116O.](#)

Enterprise Minnesota is a nonprofit business consulting organization, set up by the Legislature that helps small and medium-sized manufacturing companies, education services, and government entities in Minnesota. Enterprise Minnesota operates as a fee-for-services 501(c) (3) nonprofit.

[Enterprise Minnesota](#) 612-373-2900 or 800-325-3073.

[Minn. Stat. § 116O.061.](#)

Enterprise Minnesota focuses on applied research and technology transfer and early stage funding. It may provide financial assistance, including loan guarantees, direct loans, interest subsidies, or equity investments, to sole proprietorships, corporations, other entities, nonprofit organizations, or joint ventures. Financial assistance includes but is not limited to assisting a qualified company or organization with business services and products that will enhance the operations of the entity.

D. E-commerce ready cities

[Minn. Stat. § 116J.037.](#)

[DEED](#) (651) 297-1291 or (800) 657-3858.

As a tangential aid to encouraging development, the Department of Employment and Economic Development may designate cities that meet certain criteria as e-commerce ready.

E. Corporations

[Minn. Stat. § 465.717.](#)

[Minn. Stat. § 471.59.](#)

LMCIT risk information memo, [Liability Coverage for Joint Powers Agreements](#).

Cities must not create nonprofit corporations unless authorized to do so by special legislation. The law allows incorporation of a joint powers entity, but these must comply with all applicable public sector laws (open meeting, gift law, conflicts of interest, competitive bidding, etc.) and must be separately insured.

V. Federal development tools

A. Community development block grants

More information is available on the [HUD](#) web site.

The Community Development Block Grant (CDBG) program, under the U.S. Department of Housing and Urban Development (HUD), provides cities with federal funding to initiate and continue a diverse array of housing and community development projects.

B. Rural development grants

For more information, contact [Rural Development State Office](#) 410 Farm Credit Service Building 375 Jackson Street St. Paul, MN 55101-1853, (651) 602-7800. See also, Handbook, [Chapter 25](#).

A variety of grants and loans to encourage economic development are available to cities from the U. S. Department of Agriculture, rural development program. Sewer, water, rural enterprise, housing, and other types of grants and loans are available.

VI. How this chapter applies to home rule charter cities

All of the tools this chapter lists are available to charter cities. The general discussions also apply to all cities.

ECONOMIC DEVELOPMENT AUTHORITY HANDBOOK

JUNE 2011



PREFACE

In these uncertain economic times, it is more important than ever for cities to develop and utilize sound economic development procedures and practices to address an ever more complex and changing marketplace.

This handbook has been prepared as a guide to assist local economic development leaders to utilize their limited resources in the best practical manner. Furthermore, this handbook seeks to ascertain methods in which one can better set up one's EDA to make it more efficient and effective in utilizing scarce resources. The key to successful economic development is communication with local businesses to learn of their needs and concerns, and to determine how to best use the community's resources to address those concerns.

Throughout my career in various economic development roles, I have seen, firsthand, just how vital development tools such as EDAs, Housing and Redevelopment Authorities, and Port Authorities can be to a community in building a vibrant business climate and in generating significant employment opportunities. Early in my career at the Region Nine Development Commission, I would have given anything to have a document such as this to utilize! As a Business Finance Specialist with the Minnesota Department of Trade and Economic Development (now MN DEED) I was able to see directly just how important EDAs are to local communities and how they could be utilized to great effect by cities in Southern Minnesota. In addition, the ability to utilize EDA powers significantly benefited economic development through my tenure as Community Development Director in the City of Roseville and as City Administrator for Oakdale. In both communities, I found the use of an EDA (or similar authorities) to be an invaluable tool in many development and redevelopment projects.

I would like to offer special thanks to a number of individuals for their hard work and dedication in updating this handbook. I would especially like to thank Mary Ippel from Briggs and Morgan for her experience and for her extensive help preparing this handbook. I would also like to thank the City of Oakdale staff including Assistant to the Administrator Dave Schaps, for coordinating the update of this handbook and compiling the information, and Intern Devin Swanberg for conducting the background research. In addition, my thanks to the Minnesota Economic Development Foundation for funding this project, as well as the Minnesota Department of Employment and Economic Development for its review and subsequent publication of the handbook. We hope this guide will help you in your own economic development endeavors. Now go out there and create jobs and develop that tax base!

Sincerely,

Craig A. Waldron,
City Administrator, ICMA-CM
City of Oakdale

ACKNOWLEDGEMENTS

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www.ci.oakdale.mn.us



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NOTICE

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INTRODUCTION TO LOCAL ECONOMIC DEVELOPMENT ORGANIZATIONS

There are several types of organizational structures available for community economic development programs. The type of organization that a community decides to establish is dependent on the special activities that are targeted. In some communities, business development and job creation are the primary goals, while others have housing development as a priority. Many communities have existing community economic development groups. There are several different kinds of organizations available that focus on economic growth. The type of growth that a community wishes to achieve will dictate what type of group will be formed. In addition, the purpose and creation of the organization will impact the statutory powers available to the entity. Each of these organizations may focus on different issues such as housing development, creation of jobs, and business development. The majority of community groups focus on economic growth opposed to housing growth.

Outlined below is a brief description of each type of development organization.

Business Organizations

Commercial Club: Usually an incorporated 501(c)(4) or (6) organization whose purpose is to promote community and retail events. This group is usually made up of local retail owners and owners of local businesses. This is an unpaid organization consisting of volunteers and has no staff.

Chamber of Commerce: A chamber is an incorporated non-profit 501(c)(4) or (6) that is generally affiliated with the state and national chamber of commerce. The chamber consists of local business professionals of the community who meet together to promote local businesses and the community. Generally, they have an elected board with limited staff. Larger chambers often deal with tourism and overall business development of the community. They sometimes are politically active and can be a powerful lobbying force when dealing with policy that affects the community's economic strategy. Chambers are generally active and can hold educational and other events for local businesses.

Development Corporations

For-Profit: A corporation formed to develop and sell industrial land and/or provide financing for business development within the community. Local investors can buy shares that can be paid in dividends from profits made on projects. Money invested in corporations can be repaid to the stockholders. The board is made up of shareholders and may or may not have staff. The corporation is subject to federal and state income tax.

Non-Profit: A corporation formed to develop and sell industrial land and/or provide financing for business development in the community. Shares are sold or funds may be raised in other ways. No dividends are paid on shares. The non-profit corporation must obtain either 501(c)(3)

or 501(c)(4) status from the IRS. Donations made to a 501(c)(3) by both individuals and businesses are tax deductible. Obtaining 501(c)(3) status can be difficult, expensive and time-consuming and many communities are not willing to go through the lengthy process. Although 501(c)(4) status is less difficult to obtain than 501(c)(3) status, only a business may make contributions that are tax deductible, individual contributions are not eligible for the tax deduction. Also, organizations with 501(c)(3) are prohibited from directly or indirectly participating in, or intervening in, any political campaign on behalf of or against any candidate for elective public office.

Government Organizations

Economic Development Commission: A board used to advise a City Council, appointed by the Mayor and/or City Council. It has limited or no decision making authority and is used as a sounding board or a first point of contact for the City Council on development projects. The commission is used to draft strategies and policies for ratification and implementation of local plans on a volunteer basis.

Housing Redevelopment Authority (HRA): An HRA is a public corporation with power to undertake certain types of housing and redevelopment or renewal activities. While state legislation conveys authority for housing and redevelopment in each City, it is up to the City Council to formally establish an HRA before it can do business and use its powers. Once a council legally establishes an HRA, it may undertake certain types of planning and community development activities on its own with council approval.

Port Authority: This is a legal entity created by the State Legislature to promote the general welfare of a City's port district, increase the volume of commerce in the port and provide facilities for handling, storage and shipment of freight. The Port Authority actively develops commerce within the City and can enable business location and expansion. The powers of a Port Authority are more expansive than those of an HRA or an EDA. The State Legislature authorizes the creation of Port Authorities. A Port Authority is a separate political entity with the right to sue and be sued in its own name and is generally organized to increase commerce in a City. Unlike EDAs and HRAs, a Port Authority may issue general obligation bonds without holding an election.

Joint Powers Board: This is a board created by multiple Cities, Townships or Counties for a certain purpose, such as economic development. The agreement between the units of government would specifically describe activities and powers that the board exercises in carrying out its duties.

Economic Development Authority (EDA): An EDA is a legal entity created by a City or a County to facilitate a well-rounded development program by taking advantage of some of the port authority powers and all of the HRA powers. By combining and utilizing HRA, EDA and City powers, community leaders are able to create flexible business assistance and development programs. EDAs for example, are allowed, to buy and sell property; make loans and grants to businesses; provide guarantees or other credit enhancements; and to sell bonds.

All Cities have authority from the State Legislature to create an EDA. The City may consolidate the EDA with an existing HRA or the City may establish the EDA as a separate entity. The City Council may create an EDA by passing an enabling resolution. Before adopting the enabling resolution, the City must first conduct a public hearing. The enabling resolution establishes a Board of Commissioners for the EDA. The City Council can choose to serve as the EDA Board of Commissioners or create a board composed of council members and community members. The Mayor, with approval of the Council, appoints the Commissioners. The Board may consist of three, five or seven members who serve six-year terms. The Board is subject to the open meeting law.

Rural Development Finance Authority (RFDA). A nonprofit corporation established by a County or group of Counties through special legislation. RFDAs are designed to facilitate the production and processing of agricultural products and promote jobs in agriculture and natural resources industries. The board is appointed by the County Board of Commissioners.

Note: Please see appendix for a table comparing selected development laws.

FORMATION AND OPERATION OF AN ECONOMIC DEVELOPMENT AUTHORITY

Reasons for Forming an EDA

The Minnesota Legislature granted Cities the power to create economic development authorities in 1987. By giving Cities this ability they can promote economic growth. EDAs were created to work in conjunction with and to facilitate other economic development organizations such as Port Authorities and Housing Redevelopment Authorities (HRA). This allows Cities to create a better approach to economic development allowing them to create flexible business assistance and development programs.

In addition to HRA powers, EDAs were authorized to exercise the powers of Cities in connection with City development districts and the powers of municipalities or development agencies in connection with municipal industrial development. By consolidating the powers of economic and housing development into one body, City officials are not only able to focus development on blighted areas but, also create programs that will prevent blight from occurring elsewhere within the community.

The primary powers of an EDA:

- Serve to promote business and to recruit new businesses
- Issue revenue bonds.
- Acquiring property.
- Purchase and sell land.
- Serve as a limited partner.
- Make or guarantee or other credit enhancements.
- Issue general obligation bonds (approved by election).

Procedures for Establishing an EDA

In order for a City to create an EDA the City Council must adopt a written resolution called an enabling resolution. A County can also create an EDA. This handbook describes the process for Cities to establish an EDA. Through the enabling resolution EDA's are granted all of the powers described in Minnesota Statutes, 469.090-1082, subject to any limitation on those powers as specified by the City. EDA's are also granted the powers given to HRAs in the HRA law, powers almost identical to Port Authorities under the Port Authority Law and all of the development powers granted to a City under the municipal development district law and the industrial development act.

Before adopting an enabling resolution the City Council must hold a public hearing and it must determine the number of Board Members to be on the EDA. The notice of the public hearing must identify the place and time of the hearing, brief statement of the purpose of the hearing, and the notice must contain a summary of the resolution. The notice of public hearing must be published in newspaper of general circulation once a week for two consecutive weeks prior to

the meeting. The first publication must appear not more than 30 days from the date of the public hearing.

Without limiting the right of the EDA to petition the City Council at any time, each year, within 60 days of the anniversary date of the first adoption of the enabling resolution, the EDA shall submit to the City Council a report stating whether and how the enabling resolution should be modified. Within 30 days of receiving the recommendation, the City Council shall review the enabling resolution, consider the recommendation of the EDA, and make any modification it considers appropriate (Minn. Stat. § 469.092, Subd. 3).

All modifications to the enabling resolution must be by written resolution and must be adopted after notice is given and a public hearing conducted as required for the original adoption of the enabling resolution (Minn. Stat. § 469.093, Subd. 2).

An EDA is a public body corporate and politic as well as a political subdivision of the State of Minnesota with the right to sue or be sued in its own name. An EDA carries out an essential governmental function when it exercises its powers, but is not immune from liability because of this. (Minn. Stat. § 469.091, Subd. 2)

Enabling Resolution, Bylaws, Transfer Resolution and Ordinance Checklist

☐ **Board Size (Optional)**

- ☐ 3 – Minimum of 1 City Council member
- ☐ 5 – Minimum of 2 City Council members
- ☐ 7 – Minimum of 2 City Council members

☐ **Officers/Staff Powers and Duties**

- | | |
|--|--|
| ☐ - President | ☐ - Executive Director |
| ☐ - Vice President | ☐ - Engineers |
| ☐ - Treasurer | ☐ - Technical/Support Staff |
| ☐ - Assistant Treasurer | ☐ - Secretary |

☐ **Procedures**

- | | |
|--|--|
| ☐ - Board Compensation | ☐ - Quorum |
| ☐ - Budget | ☐ - Treasurer's Bond |
| ☐ - Fiscal Year | ☐ - Reports/Financials/Audits |
| ☐ - Corporate Seal | ☐ - Professional/Technical Services |
| ☐ - Annual/Monthly/Special Meetings | ☐ - Amendments to By-Laws |
| ☐ - Depositories | ☐ - Conflict of Interest |

☐ **Committee Structure (optional)**

- | | |
|--|---|
| ☐ - Local Publicity | ☐ - Business Retention and Expansion |
| ☐ - Planning and Zoning | ☐ - Marketing |
| ☐ - Sites and Buildings | ☐ - Advisory |

☐ **Transfer of Authority and Programs**

☐ **Economic Development Powers**

- | | |
|---|--|
| ☐ - Economic Development Districts | ☐ - Redevelopment Districts |
| ☐ - Acquisition of Property | ☐ - Options |
| ☐ - Eminent Domain | ☐ - Contracts |
| ☐ - Limited Partnerships | ☐ - Rights and Easements |
| ☐ - Acceptance of Public Land | ☐ - Foreign Trade Zone |
| ☐ - Public Facilities | ☐ - Government Agent |
| ☐ - Studies/Analysis/Research | ☐ - Public Relations |
| ☐ - Loans | ☐ - Use of Proceeds |
| ☐ - Mined Underground Space | ☐ - Levy of Taxes |
| ☐ - Advances | ☐ - Issuance of Bonds |

☐ **Housing and Redevelopment Powers**

- | | |
|---|--|
| ☐ - Acquisition of Open Land | ☐ - Acquisition of Unused Land |
| ☐ - Sale of Real/Personal Property | ☐ - Studies |
| ☐ - Comprehensive Plans | ☐ - Inventory of Land/Buildings |
| ☐ - Joint Powers Agreements | ☐ - Parking Facilities |
| ☐ - Bonding Authority | ☐ - Special Benefit Tax |
| ☐ - Property Tax Exemption | ☐ - Borrowing/Acceptance of Funds |
| ☐ - Rehabilitation Loan/Grants | ☐ - Interest Reduction Program |

☐ **Limitations on Powers**

- | | |
|--|---|
| ☐ - Limitations on All Powers | ☐ - Limitations on Individual Powers |
|--|---|

Board of Commissioners of EDA

Board Size

The City Council must determine the size and makeup of a Board of Commissioners. The City Council may serve as the Board of Commissioners or it can create a board that includes members of the community.

The Board shall be appointed as follows:

- A. Three-member EDA: the Commissioners constituting a three-member EDA, one of whom must be a member of the City Council, shall be appointed by the Mayor with the approval of the City Council. Those initially appointed shall be appointed for terms of two, four, and six years, respectively. Thereafter all Commissioners shall be appointed for six-year terms.
- B. Five-member EDA: the Commissioners constituting a five-member EDA, two of whom must be members of the City Council, shall be appointed by the Mayor with the approval of the City Council. Those initially appointed shall be appointed for terms of two, three, four, five and six years respectively. Thereafter all Commissioners shall be appointed for six-year terms.
- C. Seven-member EDA: the Commissioners constituting a seven-member EDA, two of whom must be members of the City Council, shall be appointed by the Mayor with the approval of the City Council. Those initially appointed shall be appointed for terms of one, two, three, four, and five years respectively and two members for six years. Thereafter all Commissioners shall be appointed for six-year terms.

An EDA may be increased from three to five or seven members or from five to seven members by a resolution adopted by the City Council following the procedures provided for modifying the enabling resolution.

Cause for Removal

A Commissioner may be removed by the City Council for inefficiency, neglect of duty, or misconduct in office. A Commissioner shall be removed only after a hearing. A copy of the charges must be given to the Commissioner at least ten days before the hearing. The Commissioner must be given an opportunity to be heard in person or by counsel at the hearing. When written charges have been submitted against a Commissioner, the City Council may temporarily suspend the Commissioner. If the City Council finds that those charges have not been substantiated, the Commissioner shall be immediately reinstated. If a Commissioner is removed, a record of the proceedings, together with the charges and findings, shall be filed in the office of the City clerk.

Vacancy

A vacancy is created in the membership of an EDA when a City Council member of the EDA ends council membership. A vacancy for this or another reason must be filled for the balance of the unexpired term, in the manner in which the original appointment was made. The City Council may set the term of the commissioners who are members of the City Council to coincide with their term of office as members of the City Council.

Committees

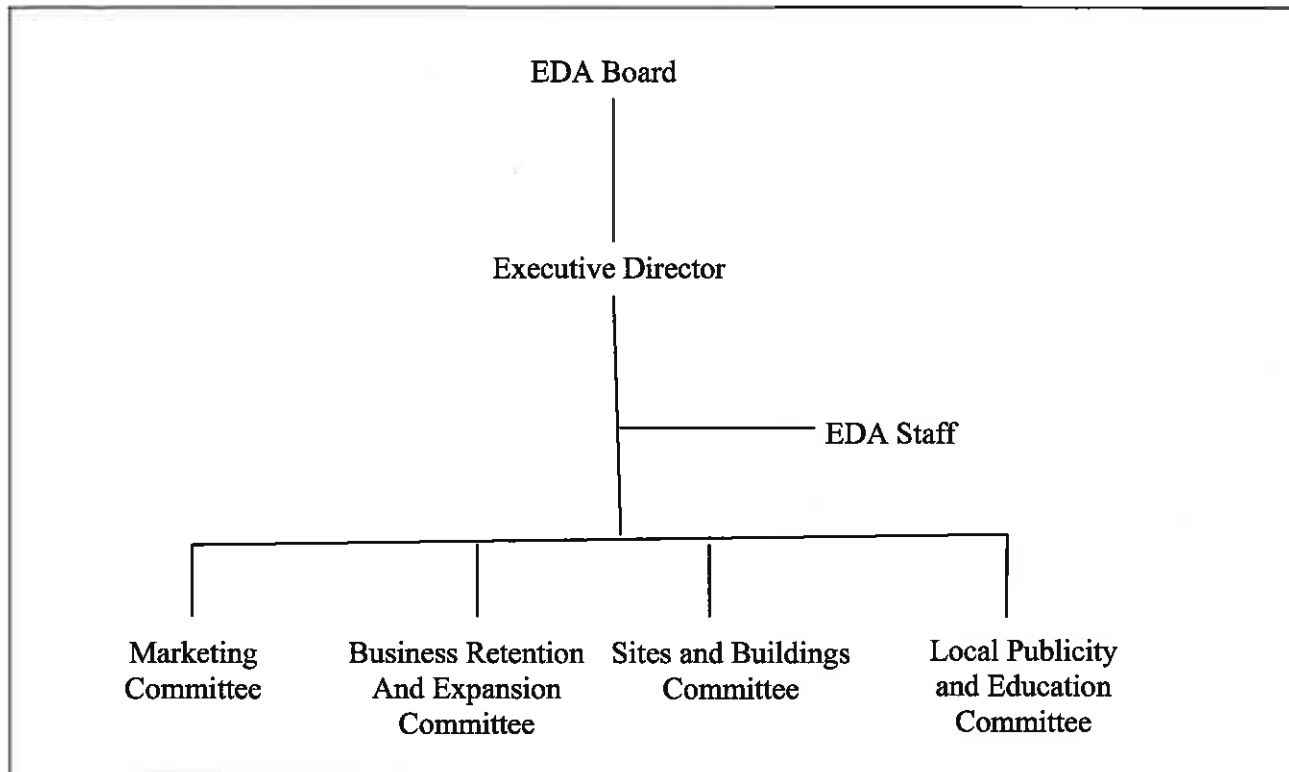
The EDA Board of Commissioners is responsible for the decision making process for the EDA, many Cities have found it helpful to develop a committee structure to assist in reaching the economic development goals of the community on or ongoing or ad hoc depending on upon the workload and particular issues that may arise. Possible committees could include:

Local Publicity and Education Committee

Sites and Buildings Committee

Business Retention and Expansion (BRE)

Marketing Committee



Officers, Duties and Organizational Issues

The EDA must adopt bylaws, rules of procedure and an official seal. In the appendix is an example of organizational bylaws.

Officers

An EDA shall elect a president, a vice-president, a treasurer, a secretary and an assistant treasurer. The Authority shall elect the president, treasurer, and secretary annually. A Commissioner must not serve as president and vice-president at the same time. The other offices may be held by the same Commissioner. The offices of secretary and assistant treasurer need not be held by a Commissioner. At a minimum, there must be three officers on the board. (Minn. Stat. § 469.096).

Duties and Powers of Officers

The president and vice-president have the usual duties and powers of their offices. They may be given other duties and powers by the EDA.

The treasurer is responsible for receiving, disbursing and monitoring all funds of the EDA. When disbursing funds, the transaction must be by check only. The treasurer must also keep an account of the source of all receipts, as well as the nature, purpose and authority of all expenditures. The treasurer is responsible for filing a detailed financial statement with the secretary at least once a year at times set by the EDA. Quarterly reports may also be filed. The treasurer is also responsible for the acts of the assistant treasurer. The assistant treasurer has the powers and duties if the treasurer is absent or disabled. (Minn. Stat. § 469.096, Subd. 4).

The EDA must obtain a treasurer's bond conditioned for the faithful discharge of official duties. The bond must be approved as a form and surety by the EDA and filed with the secretary. The bond must be for twice the amount of money likely to be on hand at one time, as determined at least annually by the EDA provided that the bond may not exceed \$300,000 (Minn. Stat. § 469.096, Subd. 6)

The EDA may choose to have the secretary and the assistant treasurer position filled by a non-board member (Minn. Stat., § 469.096, Subd. 2).

Public Money

EDA money is public money.

Checks

An EDA check must be signed by the treasurer and one other officer named by the EDA in a resolution. The check must state the name of the payee and the nature of the claim that the check is issued for.

Financial Statement

The EDA's detailed financial statement must show all receipts and disbursements, their nature, the money on hand, the purposes to which the money on hand is to be applied, the EDA's credits and assets, and its outstanding liabilities in a form required for the City's financial statements. The EDA shall examine the statement together with the treasurer's vouchers. If the EDA finds that the statement and vouchers are correct, it shall approve them by resolution and enter the resolution in its records. (Minn. Stat. § 469.051).

Compensation and Reimbursement

A Commissioner, including the president, shall be paid for attending each regular or special meetings in an amount to be determined by the City Council. (Minn. Stat., § 469.095, Subd. 4). In addition to receiving pay for meetings, the Commissioners may be reimbursed for actual expenses incurred in doing official business of the EDA. All money paid for compensation or reimbursement must be paid out of the EDA's budget.

Conflict of Interest

A Commissioner or employee of an EDA shall not acquire any financial interest, direct or indirect, in any project or in any property included or planned to be included in any project

sponsored by the EDA. EDA Commissioners or employees may not have any financial interest, direct or indirect, in any contract or proposed contract for materials or services to be furnished or used in connection with any project (Minn. Stat., § 469.098).

The following is a list of exceptions when an EDA may contract for goods or services with a Commissioner or officer of the EDA who has a financial interest in a project. Approval of this action must be passed by a unanimous vote of the EDA with the affected Commissioner abstaining from the vote on the resolution (Minn. Stat., § 471.88).

1. When an officer or Commissioner is employed by a bank or savings association that serves as the EDAs depository or as a source of borrowing, and that Commissioner has an interest either direct or indirect, no restrictions apply. However, if a Commissioner or officer does have a direct or indirect interest as a director or an employee of the bank or savings association, he or she must make that disclosure and enter it into the minutes of the EDA. This disclosure serves as notice of the Commissioner's interest and does not need to be made on future transactions with that designated financial institution.
2. When a Commissioner of the EDA is employed by a bank that is engaged in making loans or performing trust services involving real or personal property affected by any plan of the EDA, there is no restriction that applies to the loans made or trust services performed by the Commissioner's bank if he or she discloses the nature of the loans or trust services of which the Commissioner has personal knowledge. This disclosure must be entered in the minutes of the EDA.
3. If the EDA has designated an official newspaper, or publication where it publishes its public notices and minutes, and a Commissioner has an interest in the paper.
4. If the EDA enters into a contract with a cooperative association where a Commissioner is a shareholder or stockholder, but not an officer or manager.
5. A contract for which competitive bids are not required by law and where the amount does not exceed \$5,000.
6. Contracts for goods or services when consideration does not exceed \$5,000 in any year and the sealed bid process is used and the contracting governmental unit has a population of less than 1,000.
7. When an EDA Commissioner is engaged in or employed by a firm that is in the business of importing or exporting or general trade, the EDA may enter into business transactions with the Commissioner or the Commissioner's employer provided that the Commissioner abstains from voting on any resolution that sets rates affecting shippers or users of an EDA-owned facility. (Minn. Stat. § 471.88)

Ethics Law

Changes made in the 1994 Ethics in Government Act not only affect state legislators but also local officials. The definition of a local official is "a person who holds elective office in a political subdivision or who is appointed to or employed in a public position in a political

subdivision". Minn. Stat. § 10A.01 Subd. 22 goes on to state that local officials are those who have the "authority to recommend, or as a member of the governing body, make major decisions regarding the expenditure or investment of public money." Based on these definitions, EDA executive directors and commission members are subject to the gift restrictions of the Ethics in Government Act.

A local official is prohibited from accepting gifts from a lobbyist or lobbyist principal including:

- Money,
- Real or personal property,
- A service,
- A loan,
- A forbearance or forgiveness of indebtedness, or
- A promise of future employment

unless the lobbyist or lobbyist principal receives consideration of equal or greater value in return.

Employees, Services, and Supplies

The EDA may employ an executive director, a chief engineer, other technical experts and agents, and other employees as it may require. The EDA must determine their duties, qualifications and compensation. Also, the EDA may contract for the services of consultants, agents, public accountants, and other persons needed to perform its duties and exercise its powers. The EDA may use the services of the City Attorney or hire a general counsel for its legal needs (Minn. Stat. § 469.097). (See appendix for sample job description).

The EDA may utilize the City/County's purchasing department in connection with construction work and to purchase equipment, supplies and materials. The City/County may furnish offices, structures and space, stenographic, clerical, engineering and other assistance to the EDA in order for it to perform its duties and to carry out its powers.

The EDA may also delegate to one or more of its agents or employees powers or duties it may deem proper.

Depositories

Every two years the EDA shall name a national or state bank(s) within Minnesota as depositories for its funds. Before acting as a depository, the bank must give the EDA a bond approved as to form and surety by the EDA. The bond must state the conditions for the safekeeping and the prompt repayment of deposits. The amount of the bond must be at least equal to the maximum amount expected to be deposited at any one time. An EDA may deposit all its money from any one source in one bank account.

When the EDA funds are deposited by the treasurer in a bonded depository, the treasurer and the surety on the treasurer's official bond are exempt from liability for the loss of the deposits because of the failure, bankruptcy or other act or default of the depository bank. However, an EDA may accept assignments of collateral from the depository bank to secure the deposits just as

assignments of collateral are permitted by law to secure deposit of the EDA's City (Minn. Stat. § 469.099)

Budget, Fiscal Year, Taxes, Audits and Reports

The fiscal year of the EDA must be the same as that of its governing City. It must annually submit its budget to the City in a time frame that matches the City's normal budget cycle. This budget must include a detailed written estimate of the amount of money that the EDA expects to need from the City during the next fiscal year.

There are many ways in which EDA's budgets are established. EDAs have the ability to receive funding from virtually any source, public and private, and including the general funds of the underlying City. In addition, EDAs utilize administrative fees from loan or grant agreements, guarantees or other credit enhancements or contributions from local businesses or organizations.

The most common practice is a direct general fund appropriation to the EDA out of the City general fund. The EDA is required to send its budget to the City Council with an estimate of funding requirements for the next fiscal year, and it is through this procedure that a City may give money from the City's general funds for the EDA to use. There is no limit to the amount of funding that can be provided to an EDA through this mechanism.

One of the fringe benefits of City general fund monies lies in the fact that their use may not be as restricted as monies from other funding sources. This enables an EDA to use them for virtually any economic development purpose, as long as appropriate findings are made and safeguards imposed to demonstrate the use will promote economic development in the City. Such uses include write downs, grants or loans, working-capital loans and the purchase of limited partnership interests. For example, an EDA received funding using dollars remaining in a City's bond fund after all bonds were retired, and used these dollars to capitalize a revolving loan fund.

In addition to the annual budget, the EDA must submit a detailed annual report to the City Council outlining its activities, receipts and expenditures during the preceding calendar year. The report may also include other matters and recommendations that the EDA deems advisable for the economic development of the City.

On an annual basis the financial statements of the EDA must be prepared, audited, filed and published or posted in the manner required for the financial statements of the City. The financial statements must permit a comparison and reconciliation with the City's accounts and financial reports. The report must be filed with the State Auditor by June 30th of each year. The auditor will review the report and may accept it or audit the books of the EDA for cause (Minn. Stat. § 469.100).

City Levy of Taxes for EDA Activities

The City may, at the request of the EDA, levy a tax in any year for the benefit of the EDA in an amount not more than 0.01813 percent of taxable market value. The amount levied must be paid by the City treasurer to the treasurer of the EDA, to be spent by the EDA. A City may increase its levy for economic development authority purposes under Minnesota Statutes 469.107, Subdivision 1 in the following way. The City Council must first pass a resolution stating the

proposed amount of levy increase. The City must then publish the resolution together with a notice of public hearing on the resolution for two successive weeks in its official newspaper or if none exists in a newspaper of general circulation in the City. The hearing must be held two to four weeks after the first publication. After the hearing, the City Council may decide to take no action or may adopt a resolution authorizing the proposed increase or a lesser increase. A resolution authorizing an increase must be published in the City's official newspaper or if none exists in a newspaper of general circulation in the City. The resolution is not effective if a petition requesting a referendum on the resolution is filed with the City Clerk within 30 days of publication of the resolution. The petition must be signed by voters equaling five percent of the votes cast in the City in the last general election. The election must be held at a general or special election. Notice of the election must be given in the manner required by law. The notice must state the purpose and amount of the levy.

Levy of Taxes for HRA Activities

Subject to the approval by resolution of the governing body of the City, the EDA may levy a tax for HRA purposes upon all taxable property within that taxing district. The levy cannot not exceed an amount equal to 0.0185 percent of taxable market value, and must be spent for purposes authorized under the HRA statutes. These levies must be included in the EDAs annual budget.

Transfer of Authority

The City may by ordinance divide the economic development, housing and redevelopment powers granted under the EDA and HRA sections in Minnesota Statutes, Chapter 469 between the EDA and any other authority or commission established under statute or City charter for economic development, housing or redevelopment.

The City may, by resolution, transfer the control, authority and operation of any project or program located within the City from another governmental agency or subdivision that established the project or program to the EDA. The City may also require the EDA to accept control, authority and operation of the project or program. If a project or program is transferred to the EDA, it may exercise all of the powers that the governmental unit establishing the project or program could have exercised with respect to the project or program.

When a project or program is transferred to the EDA, the EDA must pledge in writing to perform the terms, conditions and covenants of the bond indenture or other agreements executed for the security of any bonds that were issued by the governmental subdivision that initiated the project or program. The EDA may exercise all of the powers necessary to perform the terms, conditions and contracts of any indenture or other agreements executed for the security of the bonds and will become obligated for the bonds when the project or program is transferred.

If the City transfers a housing project or a housing development project to the EDA, the City must transfer all housing development and management powers relating to that specific project or program.

Transfer of Personnel

The City may also by resolution place any employees of the HRA under the direction, supervision or control of the EDA. The transfer of employees does not affect the employee rights existing under a collective bargaining agreement or fringe benefit plan. Upon transfer, the employees will become employees of the EDA.

Powers of an EDA

General Powers and Purposes

The primary benefit of an EDA rests in its ability to easily and flexibly accomplish a wide range of development and redevelopment objectives. An EDA is granted a remarkably full complement of development powers. These include (subject to any limitation in the enabling resolution) the powers enumerated by its enabling legislation, but also those powers granted by cross-reference to housing and redevelopment authorities (HRAs), to Cities in connection with projects and development districts, and to municipalities and redevelopment agencies in connection with Municipal Industrial Development. These development powers allow an EDA great latitude, flexibility and efficiency in pursuing economic development objectives.

The purposes to which EDAs may direct their powers are not entirely clear in the statutes. They appear to include making land suitable and available for economic development and to encourage the location or expansion of economic development facilities. Also, through incorporating the purposes of HRAs, EDAs also can provide adequate housing in addition to clearing and developing blighted areas. And by incorporating the broad purposes of Municipal Industrial Development, EDAs may actively promote, attract and encourage the development of economically sound industry and commerce for the purpose of preventing the emergence of blighted and marginal lands and areas of chronic unemployment.

Usually, an EDA must adopt or reference a broader plan to exercise its powers. Certain EDA powers can only be exercised within the boundaries of an "Economic Development District; certain HRA powers must be exercised within the boundaries of a "Redevelopment Project," and certain municipal powers must be exercised within a "Municipal Development District."

Certain EDA powers must be exercised only within the boundaries of an "Economic Development District." This is not to be confused with the type of TIF financing district of the same name. Instead, it refers to a contiguous area of the City which satisfies the requirements of Minnesota Statutes, Section 469.174, Subdivision 10. This is the same definition as a TIF "redevelopment district" and requires that one of the following conditions exists:

1. Parcels consisting of 70 percent of the area of the district are occupied by buildings, streets, utilities, paved or gravel parking lots, or other similar structures and more than 50 percent of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance.

"Structurally Substandard" means that a building contains defects in structural elements or a combination of deficiencies in essential utilities and facilities, light and ventilation, fire protection equipment, including adequate egress, the layout and condition of the

interior partitions, or similar factors, which defects or deficiencies are of sufficient total significance to justify substantial renovation or clearance.

A building is not structurally substandard if it is in compliance with the building code applicable to new buildings or if it could be modified to satisfy the building code at a cost of less than fifteen percent of the cost of constructing a new structure of the same square footage and type as on the site (Minn. Stat. § 469.174, Subd. 10(c)).

2. The property consists of vacant, unused, under used, inappropriately used, or infrequently used rail yards, rail storage facilities, or excessive or vacated railroad rights-of-way.
3. Tank facilities exist on the site as specified in Minn. Stat. § 469.174, Subdivision 10(a)(3).

An Economic Development District may be created by the EDA after the EDA holds a public hearing on the matter. At least 10 days before the hearing, the EDA shall publish notice of the hearing in a daily newspaper of general circulation in the City. Also the EDA shall find that an economic development district is proper and desirable to establish within the City.

4. A qualifying disaster area, as defined in Minn. Stat. § 469.174, Subdivision 10(b).

Redevelopment Project

When the EDA exercises many of the powers of an HRA, such powers must be used within the boundaries of a Redevelopment Project established under the HRA law.

When establishing a Redevelopment Project, the EDA must develop a redevelopment plan which provides an outline for the development or redevelopment of the area. The EDA must obtain the written opinion of the City's planning agency if there is one.

The City Council must approve or disapprove the plan within 30 days after holding a public hearing on the Redevelopment Project. The council must make the following findings in connection with its approval:

1. The land in the project area would not be made available for redevelopment without the financial aid to be sought from the EDA.
2. The redevelopment plans for the redevelopment areas in the locality will afford maximum opportunity consistent with needs of the locality as a whole for the redevelopment of the areas by private enterprise.
3. The redevelopment plan conforms to the general comprehensive plan for the development of the locality as a whole. (Minn. Stat. § 469.028).

Municipal Development District

When the EDA exercises certain powers of cities identified in the City Development District law (Minn. Stat. §§ 469.124-469.143), they must be used within the boundaries of a Municipal Development District. A development district may be designated anywhere within the boundaries of a City and the City must adopt a Development Program for the development district, which is a statement of objections for the development district and contain the information set forth in Minn. Stat. § 469.125, Subd. 3. The City may develop a program for improving the district to provide the impetus for commercial development, increase employment, protect pedestrians, provide open space relief and other actions which are in the public purpose. Prior to designation, the City must consult with its planning agency or department, publish notice, and hold a public hearing.

Specific Powers

Because EDAs derive powers both directly from EDA law and indirectly by cross reference with other development statutes, there is often considerable overlap in the statutes which can be cited as authority for a given power.

For example, the power to acquire and develop property under the EDA Law must be exercised within the boundaries of an "economic development district." Since the definition of an economic development district is very restrictive, the EDA power to acquire land cannot be exercised in many circumstances. However, the comparable HRA power to acquire and develop property is far more general and can be exercised in a broad range of development circumstances. By picking and choosing the particular statutory authority best suited to a given proposed action, an EDA can usually carry out its purposes with a minimum of inconvenience.

Many of the powers of an EDA are listed below, including powers derived from EDA, HRA and municipal authorities. When considering the exercise of any specific power cited, you should always review the available legislation and consult with your legal and development advisors.

Acquisition of Property

An EDA may acquire the necessary rights, titles or interest in property through purchase, lease or gift. While the property is owned by the EDA and used for governmental purposes, the property is exempt from taxation by the state or its political subdivisions. However, once the EDA sells or leases the property for use by a non-governmental body, it becomes subject to taxation.

Options

The EDA may sign options to purchase, sell or lease property. This power may be used to set aside a particular building or site for future development purposes.

Eminent Domain

An EDA may exercise the right of eminent domain under Chapter 117 or under its City's charter to acquire property by condemnation. If the property is owned by the City for public use, the City must approve the taking. Also, the EDA may take possession of the property after it files a

petition in condemnation proceedings describing the property -- a practice sometimes referred to as a "quick take" proceeding.

Loans

An EDA may make loans to businesses to carry out the purposes outlined in the EDA Law (Minn. Stat. § 469.192).

Contracts

The EDA may enter into contracts with both governmental and non-governmental entities for the purpose of economic development, including the purchase or sale of real and personal property. An EDA may not incur an obligation or expense under the HRA Law, unless it has an existing appropriation, or can identify reasonably expected revenues sufficient to discharge the obligation or pay the expense. Independent authority is found in the EDA Law for the EDA to guarantee loans, as more fully discussed under the "Advances" power described later in this handbook.

Limited Partnership

An EDA may be a limited partner in a partnership whose purpose is consistent with the EDA's purpose.

If a City is participating in a project as a limited partner, it may wish to stipulate in the equity agreement a limit on its current and future liability. This stipulation will serve as a safeguard for the City if legal action is brought against the firm as a result of its operation or inequities in its services or products.

Rights and Easements

The EDA may acquire rights and easements for development of an economic development district. It may be necessary for an EDA to utilize these powers when extending public infrastructure to a project area.

Acceptance of Public Land and Property

The EDA may accept land, money, or assistance, either by gift, loan or otherwise, in any form from the federal or state government, or its agencies, or a local subdivision of the state government to carry out its economic development activities.

An EDA may accept conveyances of land from all other public agencies, commissions, or other units of government, if the land can be properly used by the EDA in an economic development district.

Foreign Trade Zone

Minnesota Statute 469.101, Subdivision 11 authorizes EDAs to operate and manage Foreign Trade Zones. Foreign or "Free" Trade Zones (FTZ) were established to facilitate international trade by serving as "safe havens" and can increase a company's cash flow by reducing costs

associated with import restrictions and duties. FTZs can be warehouses, storage tanks or fenced-in areas near harbors, airports or industrial parks. Foreign and domestic goods are brought into a zone where they can be stored, sold, exhibited, broken up, repacked, assembled, distributed, sorted, graded, cleaned and mixed with foreign and domestic products or used in a manufacturing process.

There are two types of foreign trade zones. General zones are located at or adjacent to a U.S. Customs Port of Entry (i.e. Minneapolis-St. Paul International Airport or Duluth Port) and subzones which are technically part of the general zone but are physically removed from it. General zones typically have multiple users occupying a facility or warehouse site, while "subzones" are special-purpose facilities operated by individual firms that cannot be accommodated within a general zone and are engaged in large-scale manufacturing. The major goods being produced in subzones are automobiles, trucks, motorcycles, tractors, women's garments, and refined oil.

Although a zone is operated as a public utility and can be managed by either a public or private corporation, it is treated as foreign territory and considered to be in foreign commerce, therefore providing benefit to the users. The usual formal Customs entry procedure and payment of duties is not required on the foreign merchandise unless and until it enters Customs territory for domestic consumption, in which case the importer ordinarily has a choice of paying duties either on the original foreign material or the finished product. In addition, quota restrictions do not normally apply to foreign goods stored in zones. Domestic goods moved into a zone for export may be considered exported upon entering the zone for purposes of excise tax rebates and drawback. In some cases companies can avoid both import duties on an item and state and local ad valorem taxes when goods are exported from the zone. In most cases, Federal taxes and excise taxes can be deferred on the goods until they enter the U.S. marketplace.

Public Facilities

The EDA may operate and maintain a public parking facility or other public facility to promote development or prevent the emergence of slum and blight. Frequently, these powers are exercised in cooperation with other units of government, including Cities, counties and school districts. Projects may include City halls, fire stations, libraries, community centers, administration buildings, and many others.

For example a City may want a community center for its residents. In order for the project to occur, the EDA sells revenue bonds, constructs the community center, and leases the community center to the City. The lease is paid by an annual appropriation from the City's general fund to the EDA, and the EDA uses the lease payments to pay the principal and interest due on the revenue bonds. When the revenue bonds are retired, title to the new community center will be transferred to the City.

Government Agent

An EDA may cooperate with or act as an agent for the federal or state government, a state public body, an agency or instrument of a government, or a public body to carry out its mission.

Studies, Analysis, Research

An EDA may study and analyze economic development needs in the City, and ways to meet those needs. An EDA may study the desirable patterns for land use for economic development and community growth and other factors affecting local economic development in the City. It may make the results of the studies available to the public and to business/industry in general. An EDA may engage in research and disseminate information on economic development within the City.

Public Relations

To further its economic development efforts, an EDA may join an official, industrial, commercial, or trade association, or other organization. It may also have a reception of officials who may contribute to advancing the City and its economic development activities. It may also carry out other public relations activities as it deems appropriate in fulfilling its efforts to promote the City and its economic development projects (Minn. Stat. § 469.101, Subd. 16).

Joint Powers Agreements

Any two or more EDAs using HRA powers or together with an HRA may join with one another to exercise, either jointly or otherwise, any or all of their powers. This joint powers agreement may be used for the purpose of financing, including the issuance of bonds and giving security, planning, undertaking, owning, constructing, operating, or contracting a housing project located within the area of operation of any one or more of the EDAs or HRAs. The EDA may, by resolution, authorize any other housing authority or EDA utilizing HRA powers to act on its behalf with respect to any or all powers, as its agent or otherwise.

An EDA may by resolution authorize another housing authority to exercise its powers within the authorizing EDAs area of operation at the same time that the authorizing authority is exercising the same powers.

Tax Increment Financing

There are many benefits afforded to a City by utilizing Tax Increment Financing (TIF) to facilitate economic development. Some of these are: the City can realize new development, which would not otherwise occur without the use of TIF; the City may realize broader economic gains of new development in terms of employment, tax base enhancement and secondary spin-off effects; the City can facilitate the construction of related public improvements it wishes to achieve by coordinating a TIF project with more general public improvement projects; the City may have better control over the nature of the development; the City may be able to fund administrative and/or community development costs with revenue from the TIF district and; in some cases, the qualifying of new development is enhanced by the TIF financing.

An EDA may act as an Authority for the purposes of creating and administering tax increment financing districts and plans. These powers must be exercised within a Redevelopment Project, when acting under HRA powers, or within a Municipal Development District when exercising City powers. In general, an EDA must receive approval from the City Council prior to adoption

of a Tax Increment Financing plan, and comply in all respects with the requirements of Minnesota Statutes 469.174 - 469.179.

There are several types of TIF districts allowed by statute. The following is a brief description of each.

Redevelopment District:

- Generally a blighted area containing substandard buildings.
- Requires documentation to evaluate occupied land area and analysis of substandard buildings.
- Maximum duration of TIF district is 25 years from receipt of the first increment.

Renewal and Renovation District:

- Blight and obsolescence tests must be met.
- Maximum duration of TIF district is 15 years from receipt of the first tax increment.

Housing District

- Provides housing opportunities for persons and families of low and moderate income.
- Maximum duration of TIF district is 25 years from receipt of the first tax increment.

Soils Condition District:

- Provides for the removal or remediation of hazardous substances or contaminants as specified in a development action response plan.
- Such costs must exceed (a) the fair market value of the land before completion of the preparation or (b) \$2 per square foot of the area of each parcel.
- Maximum duration of the TIF district is 20 years from receipt of the first tax increment.

Economic Development District:

- May be used only for manufacturing, production, processing, warehousing, storage, distribution (excluding retail sales), research and development, telemarketing, certain tourism and border City retail facilities and uses are directly related to or in support of such qualifying activities. Prohibits establishment if more than 15 percent of the square footage of such facilities are used for other purposes.
- Must demonstrate retention of local businesses, increased employment or preservation or enhancement of the state tax base, etc.
- Maximum duration of TIF district is 8 years from receipt of the first tax increment.
- May be used for commercial facilities not exceeding 15,000 square feet in Cities with populations of 5,000 or less located at least 10 miles outside of a City with a population of 10,000 or more. Other than administrative expenses, all increments must be spent within the TIF district.

- Expanded Rules for any type of development if construction commences by July 1, 2011 and certification of district is requested by June 30, 2011.

Compact Development District:

- May be used to redevelop property where 70 percent of the parcel is industrial or utility property.
- The project must result in an increase of square footage of industrial or utility property by three times or more over its current level.
- Must be approved before June 30, 2012.

In order to establish a TIF district, a specific process must be followed including the following:

1. A Development Program or Redevelopment Plan (depending on statutory authority used) must be prepared. This sets forth the general goals for the development or redevelopment project area.
2. A Tax Increment Financing Plan must be prepared. This sets forth the specific project(s) to be undertaken, costs involved, and revenues projected, and is the guiding document for the proposed project.
3. A public hearing on the TIF Plan and district must be conducted. Notification of the public hearing must be published 10-30 days prior to the hearing.
4. A TIF district "fiscal and economic impact" letter must be received by the County and school district at least 30 days prior to the public hearing.
5. The City planning commission must review the TIF Plan and Development Program prior to City approval.
6. At the public hearing, all interested parties are invited to express their opinion(s).
7. Subsequent to the public hearing, the City must approve or reject the TIF Plan and district.
8. Upon approval, the City must request County certification of the original value of the TIF district which will begin the tax increment collection process.
9. Actual project expenditures may not be made until the TIF Plan is adopted and the TIF district is established.

Financing and Bonding Powers

Issuing General Obligation Bonds

The EDA may issue General Obligation Bonds (GO Bonds) in anticipation of income from any source for any purpose allowed by statute. The City must, by ordinance and by two thirds vote, give specific consent to pledge the City's full faith and credit to the GO Bonds. The EDA must

comply with the provisions of Minnesota Statutes § 475, the general public indebtedness statute. An election is required to issue GO Bonds backed by the City's full faith and credit.

Issuing Revenue Bonds

Revenue bonds may be issued by the EDA to fund any authorized activity of the EDA. The revenues generated by the projects to be financed and/or other revenues of the EDA may be pledged to the payment of the revenue bonds. Bonds may also be secured by a mortgage on certain EDA property. The EDA can pledge its full faith and credit and limited taxing power to the payment of revenue bonds, but it may not pledge the full faith and credit of the City.

Because the credit strength of an EDA is usually very limited, the feasibility of a revenue bond offering is highly dependent upon the project to be financed. For example, if an EDA were to issue a revenue bond to finance the construction of a building to be leased to a manufacturing firm, the interest rate and security terms of the revenue bond would depend primarily on the creditworthiness of the manufacturer. For weaker projects and tenants, issuance may not be feasible.

Advances

As noted earlier in this handbook, there is independent authority for an EDA to make a loan. An EDA may advance (loan) its general fund money or credit without interest. The advances must be repaid from the sale or lease of land. If the money advanced for the development or redevelopment project was obtained from the sale of the EDAs general obligation bonds, then the interest rate on the advances must not be lower than the average annual interest rate on the EDAs general obligation bonds that are outstanding at the time the advances are made. Advances made to acquire land and to construct facilities for recreational purposes, do not need to be reimbursed (Minn. Stat. § 469.106).

Secondary Market

An EDA may sell, at private or public sale, at the price or prices determined by the EDA, any note, mortgage, lease, sublease, lease purchase, or other instrument or obligation evidencing or securing a loan made for the purpose of economic development, job creation, redevelopment, or community revitalization by a public agency to a business, for-profit or nonprofit organization, or an individual (Minn. Stat. § 469.101, Subd. 22). An EDA operating a revolving loan fund may choose to sell a loan on the secondary market if it needs to recapitalize the loan fund in order to finance additional projects.

Borrowing in Anticipation of Bonds

After authorizing a bond issue, an EDA may borrow funds to provide money immediately required for the project, but the loan must not exceed the amount of the bonds. The EDA must approve a resolution stating the terms of the loan. The due date for the loan may not be for more than 12 months from the date of the loan origination and may be repaid with interest from the proceeds of the bonds when the bonds are issued and delivered to the bond purchasers. The loan must not be obtained from any Commissioner of the EDA or from any corporation, association,

or other institution of which a Commissioner is a stockholder or officer (Minn. Stat. § 469.101, Subd. 19).

Revolving Loan Funds

Small business growth in most communities provides the greatest opportunity for new investment and job development. However, because constraints on capital markets, financial institutions may be unable or unwilling to provide a complete financing package, and many good companies end up with marginal long-term financing.

Businesses and financial institutions invest dollars in projects to make a profit and to earn a return on that investment. Unless the project offers the promise of a positive return, it is difficult to sell a prospective investor on locating or expanding a business. Stimulating investment requires impacting a business and a bank's spending decisions. An EDA can impact business spending decisions by providing an opportunity where rates of return on investment are attractive and competitive. Many EDAs do this by operating a local Revolving Loan Fund (RLF) designed to facilitate small business investment.

The typical goal of a local RLF is to leverage private sector investment by filling the capital market gap for financing long-term assets.

Most RLFs provide a cost advantage to the business to lessen their financial constraints and meet the community's goal of increasing productivity and creating new, permanent jobs. The RLF can provide lower interest payments, more flexible equity requirements, longer terms, deferred principle payments and a subordinate collateral position to the bank.

The type of businesses that are eligible for loan funds type of businesses that are eligible for loan funds will depend on the loan guidelines established by the particular EDA.

An RLF can be designed in several different ways. The most common type of RLFs structure is the direct loan to the business. Direct loans are made to the business with a separate set of loan documents and collateral to secure the loan. These loans are typically made to fill the gap in a development project.

The second type of funding structure is a loan guarantee. The EDA provides a partial guarantee to the private lender to ensure repayment of the loan and to limit the risk to the private lender. This type of activity provides several advantages to the EDA, notably, smaller capitalization requirements, increased leverage of funds, and limited administrative activity

A third type of RLF is a linked deposit program. With a linked deposit program, the EDA works with other government agencies and large non-profit institutions to place a certificate of deposit with the lending institution at below market rate. This action allows the bank to increase its liquidity of funds, gain a higher return on a riskier project and improve collateral coverage.

The most fundamental issue in the development of a revolving loan program is the development of policies and procedures for operating, marketing, financing and dealing with delinquencies or defaults. It is important to consider working with development counsel and/or financial advisors to discuss the intricacies and mechanics of a RLF program.

The source of capitalization for local loan funds varies by community. Communities are utilizing local sources through the use of excess general fund or municipal utility reserves, Tax Increment Financing reserves and partnerships with banks or utilities to capitalize local revolving loan funds.

Limitation of Powers

The City Council may place limits on the activities of the EDA in the enabling resolution. These limitations may be placed on the power to issue general obligation or revenue bonds, the power to grant or loan EDA funds, power to enter into limited partnerships, or any other specific power over which the governing body wishes to exercise control. The following is a list of specific areas where the governing body may exercise control (Minn. Stat. § 469.092):

1. that the EDA may not exercise any specified power contained in Minn. Stat. §§ 469.001 to 469.047, 469.090 to 469.108, and 469.124 to 469.134 or that the EDA must not exercise any powers without the prior approval of the City Council.
2. that, except when previously pledged by the EDA, the City Council may by resolution require the EDA to transfer any portion of the reserves generated by activities of the EDA that the City Council determines is not necessary for the successful operation of the authority to the debt service fund of the City, to be used solely to reduce tax levies for bonded indebtedness of the City;
3. that the sale of all bonds or obligations issued by the EDA be approved by the City Council before issuance;
4. that the EDA follows the budget process for City departments as provided by the City and as implemented by the City Council and Mayor;
5. that all official actions of the EDA must be consistent with the adopted comprehensive plan of the City, and any official controls implementing the comprehensive plan;
6. that the EDA submit all planned activities for influencing the action of any other governmental agency, subdivision, or body to the City Council for approval;
7. that the EDA to submit its administrative structure and management practices to the City Council for approval.
8. any other limitation or control established by the City Council by the enabling resolution.

GLOSSARY

Cash Flow: Can the business repay the loan out of operating cash flow.

Collateral: A tangible asset like land, building, inventory, machinery and equipment, etc., offered as security on a loan. Typically, the value of the offering is greater than the amount loaned.

Commercial Club: Usually an incorporated 501(c)(4) or (6) organization whose purpose is to promote community and retail events. The membership is usually made up of retail business owners or owners of businesses in the central or downtown business district.

Chamber of Commerce: A chamber is an incorporated, non-profit 501(c)(4) or (6) that is generally affiliated with the state and national chamber of commerce. The chamber consists of local business professionals of the community who meet together to promote local businesses and the community. Generally, they have an elected board with and most have limited staff. Larger chambers often deal with tourism and overall business development of the community. They sometimes are politically active and can be a powerful lobbying force when dealing with policy that affects the community's economic strategy. Chambers are generally active and can hold educational and other events for local businesses.

Development Commission: A board used to advise City Council, appointed by the Mayor and/or City Council. It has limited or no decision making authority and is used as a sounding board or a first point of contact for the City Council for development projects. The commission is used to draft strategies and policies for ratification and implementation of local plans on a volunteer basis.

Economic Development District: A type of tax increment financing district which consists of any project, or portions of a project, but which the authority finds to be in the public interest because: it will discourage commerce, industry, or manufacturing from moving their operations to another state or municipality; or it will result in increased employment in the state; or it will result in preservation and enhancement of the tax base of the state.

Excess Increments: Tax increments that exceed the amount needed to pay the costs authorized under the tax increment financing plan. Increments are not excess increments if the TIF plan has been amended or modified to permit additional spending. The law requires that excess increments be used to prepay outstanding bonds or deposited in an escrow account for bond payments or returned to the City, County, and school district(s) in proportion to their local tax rates.

For-Profit Development Corporation: A corporation formed to develop and sell industrial land and/or provide financing for business development within the community. Local investors can buy shares that can be paid dividends for profits made on projects. Money invested in corporations can be repaid to the stockholders. The board is made up of shareholders and may or may not have staff. The corporation is subject to federal and state income tax.

Guarantee Fee: Money paid by a borrower to a government agency, company, or individual to guarantee repayment of a loan. The fee is usually a percentage of the amount of the guarantee.

Housing District: A type of tax increment financing district which consists of a project, or a portion of a project, intended for occupancy, in part, by persons or families of low and moderate income, as defined in chapter A, Title II of the National Housing Act of 1934, the National Housing Act of 1959, the United States Housing Act of 1937, as amended, Title V of the Housing Act of 1949, as amended, any other similar present or future federal, state, or municipal legislation, or the regulations promulgated under any of those acts. A project does not qualify under this subdivision if the fair market value of the improvements which are constructed for commercial use or for uses other than low and moderate income housing consists of more than 20 percent of the total fair market value of the planned improvements in the development plan or agreement. The fair market value of the improvements may be determined using the cost of construction, capitalized income, or other appropriate method of estimating market value.

Housing Redevelopment Authority: An HRA is a public corporation with power to undertake certain types of housing and redevelopment of renewal activities. While state legislation conveys authority for housing and redevelopment in each City, it is up to the City Council to formally establish an HRA before it can do business and use its powers. Once a council legally establishes an HRA, it may undertake certain types of planning and community development activities on its own with council approval

Joint Powers Board: This is a board created by two or more Cities, townships, or counties for a specific purpose, such as economic development. The agreement between the units of government would specifically describe activities and powers that the board exercises in carrying out its duties.

Limited Partnership: A form of group ownership with at least one general partner and one limited partner, the general partner has unlimited liability. Limited partners can only lose their initial investment.

Port Authority: This is a legal entity created by the State Legislature to promote the general welfare of a City's port district, increase the volume of commerce in the port and provide facilities for handling, storage and shipment of freight. The Port Authority actively develops commerce within the City and can enable business location and expansion. The powers of the Port Authority are more expansive than the HRA or EDA. Port Authorities can issue General Obligation bonds without an election.

Redevelopment District: A type of tax increment financing district consisting of a project, or portions of a project, within which the authority finds by resolution that one of the following conditions, reasonably distributed throughout the district, exists: parcels consisting of 70 percent of the area of the district are occupied by buildings, streets, utilities, paved or gravel parking lots, or other similar structures and more than 50 percent of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance; or the property consists of vacant, used, under used, inappropriately used, or infrequently used rail yards, rail storage facilities, or excessive or vacated railroad rights-of-way.

Renewal and Renovation district: A type of tax increment financing district consisting of a project, or portions of a project, within which the authority finds by resolution that one of the following conditions exist: parcels consisting of 70 percent of the area of the district are occupied by buildings, streets, utilities, or other improvements; 20 percent of the buildings are structurally substandard; and 30 percent of the other buildings require substantial renovation or clearance to remove existing conditions such as: inadequate street layout, incompatible uses or land use relationships, overcrowding of buildings on the land, excessive dwelling unit density, obsolete buildings not suitable for improvement or conversion, or identified hazards to the health, safety, and general well-being of the community; and the conditions are reasonably distributed throughout the geographic area of the district.

Rural Development Finance Authority (RFDA): A non-profit corporation established by a County or group of counties through special legislation. RFDAs are designed to facilitate the production and processing of agricultural products and promote jobs in agriculture and natural resource industries. The board of directors is appointed by the County board of commissioners.

Structurally Substandard: A building that contains defects in structural elements or a combination of deficiencies in essential utilities and facilities, light and ventilation, fire protection including adequate egress, layout and condition of the interior partitions, or similar factors. which defects or deficiencies are of sufficient total significance to justify substantial renovation or clearance.

A building is not structurally substandard if it is in compliance with the City's building code applicable to new buildings or it could be modified to satisfy the building code at a cost of less than 15% of the cost of constructing a new structure of the same square footage and type on the site.

Tax Increment District: A district consists of the geographic area for which tax increments are collected. The development authority defines the area in the tax increment plan. A district may be contiguous or non-contiguous area within a project area.

TABLES

COMPARISON OF SELECTED DEVELOPMENT LAWS

<u>Rural Development Finance Authority</u>	<u>Municipal Industrial Development Act:</u>	<u>Housing Redevelopment Development Authorities</u>	<u>Economic Authorities</u>
Purpose:	Purpose:	Purpose:	Purpose:
An RDFA may be established by a County or group of counties to bring about the production of agricultural products and to encourage increased employment in agriculture. A RDFA is a non-profit corporation.	The main focus of Minn. Stat. , §§ 469.152 to 469.1651 includes the following: expansion and economic growth in blighted land areas; retention of industry within the district; overall strengthening of community tax base; and the general enhancement of the economy in the district.	An HRA is responsible for determining blighted land areas, and for preventing the spread of blight, including substandard building structures. A blighted area is one with buildings and areas that are detrimental to the health, safety and welfare of the community. The HRA may then provide for improvements or redevelopment of these areas through a redevelopment plan. An HRAs main area of operation is housing program development. HRAs are primarily concerned with family rehabilitation, housing redevelopment, public housing, and rent assistance.	The overall purpose of an EDA is to promote economic development within a district. EDAs may exercise their own powers which are similar to port authority powers, powers of a HRA, and the powers of Cities in connection with development districts and municipal industrial development activities.
Governing Body:	Governing Body:	Governing Body:	Governing Body:
An RDFA is controlled by a Board of Directors who are either elected or appointed by the County Board. If more than one County is involved, then all counties involved must be represented on the board.	Consists of the representing governmental unit--e.g. City Council/County Commissioners for Cities, County Board for counties, etc.	An HRAs main area of operation is housing program development. HRAs are primarily concerned with family rehabilitation, housing redevelopment, public housing, and rent assistance.	EDA is created through an enabling resolution written and approved by City Council.
The board must have a minimum of five members.	All rights of a municipality are granted to bondholders.	Approval for any project through the approval of a redevelopment plan, must be granted by the appropriate City Council.	EDAs have a board consisting of 3, 5, or 7 commissioners appointed by the Mayor with the approval of City Council. The board may also consist entirely of City Council members.
All projects and activities of the RDFA must have approval of the Commissioner of the Department of Employment and Economic Development.	When beginning a project, each municipality must provide the Commissioner of the Department of Employment and Economic Development with specified information regarding the details of the contracting agreement. All projects must be approved by the state Commissioner (except County jails).	Activities are controlled by a board of commissioners. An HRA is independent of the local government. Approval of the redevelopment plan for the proposed project is needed, however, by the governmental unit in order to proceed.	The City Council may control the activities of the EDA by limiting its powers under the enabling resolution and through the annual approval of the EDA budget.

Rural Development Finance Authority:
(continued)

Activities:

1. Build, obtain and operate projects designed for the production of agricultural products.
2. Perform agricultural research.
3. Seek aid from additional sources to promote employment.
4. Undertake projects authorized under the agricultural resource loan guarantee program.
5. May enter contracts and employ financial specialists for assistance.
6. Issue bonds or notes for financing purposes.

Municipal Industrial Development Act:
(continued)

Activities

1. Build, acquire, and retain all lands, structures, and equipment relating to a project.
2. Enter into contracts with other municipalities and agencies in connection with projects.
3. Assign revenues from projects to the holders of bonds.
4. Sell property associated with projects.
5. Exempt from property taxes on nonresidential structures built for sale or rent until the building is sold or rented; maximum time is 4 years.
6. May contractually limit its ability to exercise authority, allowing a municipality to enter into a contract with bondholders.
7. Make all necessary contracts in order to secure payments of its bonds.

Housing Redevelopment Development Authorities
(continued)

Activities:

1. May establish a redevelopment project (Minn. Stat. 469.002) for the elimination/and prevention of blighted areas.
2. Carry out projects designed to improve blighted areas.
3. Acquire real or personal property for activities related to projects.
4. May provide for the administration of a commercial building loan program to preserve small sized buildings in its district.
5. May sell real or personal property for project related purposes.
6. May sell its lands and properties to private or public parties. Sale is dependent on these parties' responsibility to continue with the redevelopment plan specified by the HRA.
7. May act as federal government agent in carrying out provisions of Municipal Housing and Redevelopment Act.
8. May exercise the powers granted to redevelopment agencies under Minn. Stat. §§ 469.152 to 469.1651.
9. Provide relocation payments and assistance in accordance with federal guidelines.

Economic Authorities
(continued)

Activities:

EDAs are granted powers within their own district, outside their development district, and, by cross-reference, the powers of HRAs, development districts in connection with the City, and agencies in connection with Municipal Industrial Development.

Powers:

1. Acquire property for creation of development district that is tax exempt.
2. Sell or lease land either by private or public means.
3. Carry out EDA law to develop and improve land within the district. The EDA may make any necessary arrangements to make land suitable for development.
4. Exercise Eminent Domain.
5. Enter into contracts for the purpose of economic development.
6. Purchase all materials needed to carry out development.
7. Engage in research to determine factors of specified development projects.
8. Act as a limited partner in contracts with additional parties.

Cross reference powers:

1. Exercise Industrial Development powers for HRA and EDA powers for industrial development activities.

Port Authorities:

Purpose:

Originally, the purpose behind port authorities was to acquire and promote development of harbors and ports. Currently, the only operating port in this regard is that of the Duluth Port Authority. The additional 25 port authorities in Minnesota exist to promote economic development, including increased commerce and acquisition of facilities within the specified port district of the City.

Governing Body:

A port authority is a governmental subdivision of the state. Direct authority is handled by a board of commissioners (usually 3-7 members) appointed by the City Council. Ports are a statutorily created municipal body.

General Port Activities:

1. Adopt plans for improvement and development of port districts.
2. Oversee the activities of privately owned port facilities.
3. Acquire and construct various facilities and charge for the use of these facilities.
4. Acquire, lease, own and operate real or personal property.
5. Sell or exchange property (real or personal) owned by the port.
6. Determine legislation to improve development and commerce within the district.
7. Apply to the federal Foreign Trade Board for authorization to exercise the powers relating to foreign trade zones.
8. Act as agent for the federal government to carry out the provisions of sections 469.090 to 469.108.
9. Issue Revenue Bonds and with the approval of the City Council, given by ordinance, General Obligation Bonds secured by a pledge of the "Full Faith and Credit" of the City.

Municipal Development Districts:

Purpose:

The purpose of an MDD is to improve the general economy of a community by increasing employment and enhancing the tax base.

Governing Body:

The MDD falls under control of the City Council/County Commissioners. The council then designates a board to administer the districts. In first class Cities, an advisory board must be created to aid with district activities. A majority of members on the board must be real property owners on lands within the district. In St. Paul and Minneapolis the board must be elected, in other Cities the members may be appointed.

Activities:

1. An MDD may obtain land through eminent domain or negotiation.
2. The MDD may design a development program within the district.
3. The MDD may further develop the facilities, transportation, or overall quality of life in a district through building acquisition, construction or reconstruction.
4. The municipality may be given ordinances regulating traffic in parking facilities or pedestrian skyway systems.
5. A municipality may lease all or portions of the basement, 1st or 2nd floors of buildings within the district.
6. The MDD may accept grants from private institutions or other sources for public facilities and general improvements.
7. The municipality may use private developers to construct buildings/facilities under the development plan. The City will reimburse the developers from MDD funds.
8. A municipality has the authorization to: install lighting systems, street signs, construct special landscaping, install snow removal systems, and build public parking ramps.

City Council

Purpose:

The main purpose of any City Council regarding the development units in this report, is to act as a control mechanism for operations. The power of the City Council and the controls it has over each of these units varies from City to City.

For Port Authority:

The City Council/County Commissioners of any port has indirect control over a port's use of general obligations bonds used for industrial projects. City Council/County Commissioners has the authority to approve the board of commissioners for any port. If a seven-member board is developed, two members must be from the City Council/County Commissioners.

For Municipal Development District:

City Council has the power to designate an existing department, agency, HRA, or other to administrate the district.

City Council may adopt ordinances designed to aid specific MDD projects.

The City has the power to create an MDD advisory board.

The City Council may defer property taxes on improved property (within the district) where a private developer constructs the improvement upon request of the economic developer.

Port Authorities:
(continued)

10. Contract with outside parties for the port.
11. Employ a director or additional staff as it deems necessary.
12. Allow membership in organizations to advance port activities and provide funds for public relations assistance.

These powers granted to a port are connected with powers of industrial development districts:

1. Develop and improve property within an industrial district and make them adequate for industrial use.
2. Exercise the power of a City regarding mined underground development.
3. Obtain rights and easements connected with industrial districts.
4. Exercise the powers specified under Minn. Stat. §§ 469.152 to 469.1651 to further improve the purposes of sections 469.090 to 469.108 (port authorities and industrial development districts).
5. Enter into a partnership agreement where the port serves as a limited partner only.
6. Receive for one dollar, tax forfeited land.
7. Use the power of eminent domain.
8. A port authority may create industrial development districts within the port district.
9. A port may obtain lands and facilities required for industrial development purposes.
10. Cooperate, and become an agent to the federal government in carrying out legislation concerned with operations in harbor and industrial districts.
11. Operate and maintain various parking systems and facilities to improve economic development.

City Council:
(continued)

For Municipal Industrial Development Act:

City Council acts as the overall Governing Body with direct and indirect control over municipal activities.

For Rural Development Finance Authority Act:

Inapplicable--County related.

For an HRA:

City Council approves appointees to the HRA Board of Directors.

City Council has certain powers of restrictions that may be enforced on the HRA. Generally, projects and activities must be approved by the City Council.

For an EDA:

The City Council may establish an EDA by way of enabling resolution. It may also determine the specific powers the EDA is to have in that resolution.

City Council must have membership on the EDA Board of Commissioners. It may serve as the EDA Board of Commissioners in entirety or choose a portion of members from the business community or general public.

City Council approves the Mayor's appointments to the EDA Board of Directors.

SAMPLE BYLAWS AND ENABLING RESOLUTIONS

EXTRACT OF MINUTES OF MEETING OF THE CITY COUNCIL OF THE CITY OF [NAMEOFCITY], MINNESOTA

HELD: _____, [Year]

Pursuant to due call and notice thereof, a regular or special meeting of the City Council of the City of [NameofCity], Minnesota, was held at the [NameofCity] City Hall on _____, [Year], commencing at _____ p.m.

The following members of the Council were present:

and the following were absent:

Councilmember _____ introduced the following Resolution and moved its adoption:

RESOLUTION CALLING FOR PUBLIC HEARING ON THE QUESTION OF ESTABLISHING AN ECONOMIC DEVELOPMENT AUTHORITY FOR THE CITY

IT IS HEREBY RESOLVED by the City Council of the City of [NameofCity], Minnesota, as follows:

1. **Recitals.**

(a) The City is authorized pursuant to Minnesota Statutes, Sections 469.090 through 469.1082, to establish an Economic Development Authority for the City.

(b) The Council desires to initiate the process for considering the establishment of an Economic Development Authority.

2. **Public Hearing.** The Council shall hold a public hearing on the question of establishing for the City an Economic Development Authority and the City Clerk is hereby authorized and directed to cause notice of that public hearing, substantially in the form attached to and made a part of this Resolution, to be published in the City's official newspaper once a week for two consecutive weeks prior to the scheduled public hearing date, with the first publication occurring no earlier than 30 days prior to the public hearing date.

The motion for the adoption of the foregoing resolution was duly seconded by Councilmember _____ and upon vote being taken thereon, the following voted in favor thereof:

+

and the following voted against the same:

whereupon the resolution was declared duly passed and adopted and was signed by the Mayor and City Clerk.

Adopted by the City Council on _____, [Year].

By _____
Mayor

Attest _____
City Clerk

+

NOTICE OF PUBLIC HEARING
ON THE PROPOSAL TO ESTABLISH
AN ECONOMIC DEVELOPMENT AUTHORITY
FOR THE CITY OF [NAMEOFCITY], MINNESOTA

Notice is hereby given that the City Council (the "Council") of the City of [NameofCity], Minnesota, will hold a public hearing on _____, [Year], at a meeting of the Council beginning at approximately _____ p.m., at the [NameofCity] City Hall in the City of [NameofCity], Minnesota, relating to the question of the establishment by the City of an economic development authority (the "EDA") pursuant to Minnesota Statutes, Sections 469.090 through 469.1082.

Following the public hearing the Council will consider an enabling resolution (the "Enabling Resolution") which would establish the EDA. The Enabling Resolution, a copy of which is on file and available for inspection in the City offices, would authorize the EDA to exercise all powers granted to such authorities pursuant to the above-mentioned statutes and would designate that the EDA would be governed by a five-member Board of Commissioners, all of whom would be members of the City Council. Upon approval of the Enabling Resolution, an organizational meeting of the EDA will be held on the same evening.

All interested persons may appear at the _____ public hearing and present their views orally or in writing.

STATE OF MINNESOTA)
COUNTY OF [NAMEOFCOUNTY]) SS
CITY OF [NAMEOFCITY])

I, the undersigned, being the duly qualified and acting City Clerk of the City of [NameofCity], Minnesota (the "City"), do hereby certify that I have carefully compared the attached and foregoing extract of minutes of a regular or special meeting of the City Council held on _____, [Year], with the original minutes on file in my office and the extract is a full, true and correct copy of the minutes insofar as they relate to calling a public hearing on the question of establishing an Economic Development Authority for the City.

Witness my hand as City Clerk and the official seal of the City on _____,
[Year].

City Clerk

(SEAL)

EXTRACT OF MINUTES
OF MEETING OF THE CITY COUNCIL
OF THE CITY OF [NAMEOFCITY], MINNESOTA

HELD: _____, [Year]

Pursuant to due call and notice thereof, a regular or special meeting of the City Council of the City of [NameofCity], Minnesota, was held at the [NameofCity] City Hall on _____, [Year], commencing at _____ p.m., C.T.

The following members of the Council were present:

and the following were absent:

Councilmember _____ introduced the following Resolution and moved its adoption:

ENABLING RESOLUTION ESTABLISHING THE ECONOMIC
DEVELOPMENT AUTHORITY OF THE CITY OF [NAMEOFCITY], MINNESOTA,
UNDER MINNESOTA STATUTES, SECTIONS 469.090 THROUGH 469.1082

BE IT RESOLVED by the City Council (the "Council") of the City of [NameofCity], Minnesota (the "City"), as follows:

1. Recitals. The City is authorized pursuant to Minnesota Statutes, Sections 469.090 through 469.1082 (the "Economic Development Authority Act"), to establish an economic development authority for the City and the Council desires to do so in order to promote certain economic, commercial, housing, and/or industrial development and redevelopment goals and objectives. The City has caused notice of a public hearing on the establishment by the City of an economic development authority to be published in a newspaper of general circulation in the City once each week for two consecutive weeks, and pursuant to such notice, a public hearing on the proposal has been held by the Council on the date hereof, at which hearing all persons desiring to present their oral or written comments on the proposal were given an opportunity to do so.

2. Establishment of Economic Development Authority. Pursuant to the Economic Development Authority Act, the Council hereby establishes an economic development authority for the City to be known as the Economic Development Authority of the City of [NameofCity], Minnesota (the "EDA"). The EDA shall be governed by a board of commissioners thereof consisting of five members, all of whom shall be members of the Council. Each Commissioner of the EDA who is a member of the Council shall cease to be a Commissioner effective at such time as he or she is no longer a member of the Council, and a successor Commissioner shall be

appointed pursuant to the Economic Development Authority Act to serve the remainder of the applicable term so vacated.

[Revise to reflect if EDA Board consists of community members and council members.]

3. Powers. The EDA shall have all powers given to an economic development authority pursuant to the Economic Development Authority Act, as the same may be amended or supplemented.

[Revise to reflect if City is limiting the powers of the EDA]

The motion for the adoption of the foregoing resolution was duly seconded by Councilmember _____ and upon vote being taken thereon, the following voted in favor thereof:

and the following voted against the same:

whereupon the resolution was declared duly passed and adopted and was signed by the Mayor and City Clerk-Treasurer.

Adopted by the City Council on _____, [Year].

By _____
Mayor

Attest _____
Clerk

STATE OF MINNESOTA)
COUNTY OF [NAMEOFCOUNTY]) SS
CITY OF [NAMEOFCITY])

I, the undersigned, being the duly qualified and acting City Clerk of the City of [NameofCity], Minnesota (the "City"), do hereby certify that I have carefully compared the attached and foregoing extract of minutes of a regular or special meeting of the City Council held on _____, [Year], with the original minutes on file in my office and the extract is a full, true and correct copy of the minutes insofar as they relate to an enabling resolution establishing the Economic Development Authority of the City of [NameofCity], Minnesota.

Witness my hand as City Clerk and the official seal of the City on _____,
[Year].

City Clerk

(SEAL)

RESOLUTION ORGANIZING THE ECONOMIC
DEVELOPMENT AUTHORITY OF THE CITY OF [NAMEOFCITY], MINNESOTA

IT IS HEREBY RESOLVED by the Board of Commissioners (the "Board") of the Economic Development Authority of the City of [NameofCity], Minnesota (the "EDA") as follows:

1. Recitals.

(a) On _____, [Year], the City of [NameofCity], Minnesota (the "City"), acting through its City Council, adopted an enabling resolution establishing the EDA pursuant to Minnesota Statutes, Sections 469.090 through 469.108.

(b) The Board wishes to provide for the basic organization of the EDA, including appointment of officers and adoption of Bylaws.

2. Adoption of Bylaws and Appointment of Officers. The Board hereby (1) approves the Bylaws of the EDA, as presented on the date hereof for the Board's consideration, and (2) appoints and approves the following officers of the EDA (Note: the offices of President, Vice-President and Treasurer must be held by Boardmembers, but the offices of Secretary and Assistant Treasurer need not be; the offices of President and Vice-President must be held by different persons):

President
Vice-President
Secretary
Treasurer
Assistant Treasurer

The President shall be the chief presiding officer of the Board and shall have such other responsibilities as may be required by law or conferred on the President by resolution of the Board. In the absence of the President, the Vice-President shall assume all of said responsibilities of the President. The offices of President, Treasurer, and Secretary shall be elected annually, as required by law. The Secretary shall act as the chief recording officer for the Board and shall maintain a file of minutes of Board meetings and resolutions.

In accordance with Minnesota Statutes, Section 469.096, Subdivision 8, all checks of the EDA shall be signed by the Treasurer and the Assistant Treasurer and shall state the nature of the claim for which the check is issued. As required by law, the EDA shall adopt an official seal.

3. Regular Meetings of the Board. The Board's regular meetings shall be held at such times as the Board may designate.

The following Boardmembers were present:

and the following were absent:

The motion for the adoption of the foregoing resolution was introduced by Boardmember _____ and was duly seconded by Boardmember _____ and upon vote being taken thereon, the following voted in favor thereof:

and the following voted against the same:

whereupon the resolution was declared duly passed and adopted and was signed by the President and Secretary.

Adopted by the Board of Commissioners on _____, [Year].

By _____
President

Attest _____
Secretary

+

BYLAWS OF THE ECONOMIC DEVELOPMENT AUTHORITY
OF THE CITY OF [NAMEOFCITY], MINNESOTA

ARTICLE I - THE AUTHORITY

Section 1. Name of Authority. The name of the Authority shall be the "Economic Development Authority of the City of [NameofCity], Minnesota" (which may sometimes be referred to as the "EDA" or the "Authority"), and its governing body shall be called the Board of Commissioners (the "Board"). The Board shall be the body responsible for the general governance of the Authority and shall conduct its official business at meetings thereof.

Section 2. Seal of Authority. As required by Minnesota Statutes, Section 469.096, Subdivision 1, the Authority shall have an official seal, which shall be in the form depicted on Exhibit A.

Section 3. Office of Authority. The offices of the Authority shall be the [NameofCity] City Hall.

ARTICLE II - OFFICERS

Section 1. Officers. The officers of the Authority shall be a President, a Vice-President, a Treasurer, an Assistant Treasurer and a Secretary. The President, the Vice-President and the Treasurer shall be members of the Board and shall be elected annually, and no Commissioner may be both President and Vice-President simultaneously. The Assistant Treasurer and the Secretary need not be members of the Board.

Section 2. President. The President shall preside at all meetings of the Board. Except as otherwise authorized by resolution of the Board, the President and the Secretary (the Vice-President, in the Secretary's absence or incapacity) shall sign all contracts, deeds and other instruments made or executed by the Authority, except that all checks of the Authority shall be signed by the Treasurer and Assistant Treasurer. At each meeting the President shall submit such recommendations and information as he or she may consider proper concerning the business, affairs, and policies of the Authority.

Section 3. Vice-President. The Vice-President shall perform the duties of the President in the absence or incapacity of the President; and in case of the resignation or death of the President, the Vice-President shall perform such duties as are imposed on the President until such time as the Board shall select a new President.

Section 4. Secretary. The Secretary shall keep minutes of all meetings of the Board and shall maintain all records of the Authority. The Secretary shall also have such additional duties and responsibilities as the Board may from time to time and by resolution prescribe.

Section 5. Treasurer. The Treasurer shall have the care and custody of all funds of the Authority and shall deposit the same in the name of the Authority in such bank or banks as the Board may select. The Treasurer and Assistant Treasurer shall sign all orders and checks for the payment of money and shall pay out and disburse such moneys under the direction of the Board. The Treasurer shall keep regular books of accounts showing receipts and expenditures and shall render to the Board, at least annually (or more often when requested), an account of such transactions and also of the financial condition of the Authority. The Treasurer shall post a bond as required by Minnesota Statutes, Section 469.096, Subdivision 6. The Assistant Treasurer shall act as the Treasurer's agent and assistant to perform the above-described duties, subject to the Treasurer's approval thereof.

Section 6. Additional Duties. The officers of the Authority shall perform such other duties and functions as may from time to time be required by the Board or the bylaws or rules and regulations of the Authority.

Section 7. Vacancies. Should the office of President, Vice-President, Treasurer, Assistant Treasurer or Secretary become vacant, the Board shall elect a successor at the next regular meeting, or at a special meeting called for such purpose, and such election shall be for the unexpired term of said officer.

Section 8. Additional Personnel. The Board may from time to time employ such personnel as it deems necessary to exercise its powers, duties, and functions. The selection and compensation of such personnel shall be determined by the Board.

ARTICLE III - MEETINGS

Section 1. Regular Meetings. The regular meetings of the Board shall occur according to a meeting schedule, if any, adopted or revised from time to time by resolution of the Board.

Section 2. Special Meetings. Special meetings of the Board may be called by the President or any two members of the Board for the purpose of transacting any business designated in the call. The call for a special meeting may be delivered at any time prior to the time of the proposed meeting to each member of the Board or may be mailed to the business or home address of each member of the Board at least two (2) days prior to the date of such special meeting. At such special meeting no business shall be considered other than as designated in the call, but if at least four members of the Board are present at a special meeting, any and all business may be transacted at such special meeting. Notice of any special meeting shall be posted and/or published as may be required by law.

Section 3. Quorum. The powers of the Authority shall be vested in the Board. Three Commissioners shall constitute a quorum for the purpose of conducting the business and exercising the powers of the Authority and for all other purposes, but a smaller number may adjourn from time to time until a quorum is obtained. When a quorum is in attendance, action may be taken by the Board upon a vote of a majority of the Commissioners present.

Section 4. Order of Business. At the regular meetings of the Board the following shall be the order of business:

1. Roll call.
2. Approval of the minutes of previous meeting.
3. Bills and communications.
4. Reports.
5. Unfinished business.
6. New business.
7. Adjournment.

All resolutions shall be written or transcribed and shall be retained in the journal of the proceedings maintained by the Secretary.

Section 5. Adoption of Resolutions. Resolutions of the Board shall be deemed adopted if approved by not less than a simple majority of all Commissioners present, unless a different requirement for adoption is prescribed by law. Resolutions may but need not be read aloud prior to vote taken thereon and may but need not be executed after passage.

Section 6. Rules of Order. The meetings of the Board shall be governed by the most recent edition of Robert's Rules of Order.

ARTICLE IV - MISCELLANEOUS

Section 1. Amendments to Bylaws. The bylaws of the Authority shall be amended only by resolution approved by at least three of the members of the Board.

Section 2. Fiscal Year. The fiscal year of the Authority shall coincide with the fiscal year of the City of [NameofCity], Minnesota.

Adopted on _____, [Year].

Exhibit A
Form of Official Seal

SAMPLE JOB DESCRIPTION

POSITION TITLE: Economic Development Director

DEPARTMENT: Economic Development

ACCOUNTABLE TO: City Administrator

PRIMARY OBJECTIVE OF POSITION:

Serves as chief staff to the Economic Development Authority, planning, directing, and implementing the economic development efforts of the City under the direction of the Authority. Performs highly skilled, managerial, coordinative and technical tasks. Generates business leads, promotes business retention and expansion, creates a positive attitude for development and raises supportive public awareness for strategic economic planning and development.

DUTIES AND RESPONSIBILITIES:

1. Prepares, organizes and implements a coordinated target marketing program to generate leads for specific business and industry.
2. Researches, designs, recommends and implements programs to encourage location of new businesses and expansion of existing businesses within the City. Coordinates resources of public and private sectors - i.e. Federal and State Grants, Industrial Development Bonds and SPA Loans, Tax Increment Financing, banks, mortgage companies, etc.
3. Develops strategies and programs for allocation and delivery of City/Authority financial assistance resources.
4. Maintains contacts with Minnesota Department of Employment and Economic Development, area Development Corporations, and area commercial and industrial real estate brokers and developers.
5. Maintains current inventory of potential business location sites within the City - both building and vacant land, including contact persons.
6. Maintains updated demographic data, promotional materials and existing building lists for economic development programs.
7. Works with prospective businesses to tailor a proposal suited to their specific needs, including alternative locations and financing packages.

8. May negotiate economic incentive packages with prospective businesses. Analyzes financial needs of specific companies to insure that public/Authority resources are applied judiciously.
9. Maintains contact with current businesses to stay abreast of their future business plans and needs.
10. Identifies and contacts prospective clients for location and expansion within the City.
11. Assists locating or expanding businesses in understanding and anticipating comprehensive plan locations, zoning districts, standards and processes. Works closely with City Planning, Building Inspections, and Engineering Divisions to help facilitate a smooth review process.
12. Periodically reviews all economic development programs for effectiveness, making recommendations to Authority and City officials for changes as deemed appropriate.
13. Participates in exhibitions, seminars, media events and the like to attract businesses to the City.
14. Limited travel may be required to attend conferences, meet with prospective clients, research potential problems, financing, etc.
15. Prepare annual budget and work program for submission to the Authority and City Council.
16. Provide quarterly and annual report to the Authority and City Council regarding status of work program, future program potentials and activities of the staff.
17. Serves as chief staff support to Economic Development Authority. Prepares agendas and background information reports for Authority meetings. Attends meetings of the Authority, Chamber of Commerce, City Council, etc. and follows up staff responsibilities as assigned.
18. Completes other duties as assigned by the Economic Development Authority.

KNOWLEDGE, SKILLS AND ABILITIES

1. Thorough working knowledge of the principles, practices and procedures of economic development.
2. Ability to organize and coordinate support from professional and technical City staff, legal consultants, other government agencies, private business, and the financial services industry.

3. Ability to analyze the economics of a particular business location or expansion project, so as to make independent judgments about the effectiveness of financial assistance or inducements.
4. Ability to establish and maintain contacts and effective working relationships with potential business clients.

QUALIFICATIONS

1. Bachelor's Degree in Public Administration, Business Administration, or a closely related field highly desirable.
2. Minimum of three years of experience working in economic development, preferably at the local government level.
3. A demonstrated record of ongoing continuing education in economic development.

SAMPLE REVOLVING LOAN FUND POLICY

Oakdale Seed Fund

Purpose

The purpose of the Oakdale Seed Fund is to expand the tax base and promote new job opportunities by providing small business concerns and developers of multi-tenant facilities with a portion of the financing necessary for their projects. These *Administrative Procedures* set forth the organization and guidelines for personnel engaged in making loans through the Seed Fund. All personnel engaged in interviewing applicants for Fund assistance and accepting, screening, processing applications and servicing loans for the program should become familiar with this information. The procedures are for use by private lenders as well as staff employed by the City of Oakdale.

Scope of EDA/ Seed Fund Activities

Purpose

The administrative procedures are a guideline for personnel working with the Oakdale Seed Fund. They set forth the internal requirements of the program and how it should be managed by the Oakdale EDA.

The EDA was created with the intention of assisting small businesses primarily by providing financial assistance for growth and expansion. The EDA and the Seed Fund are intended to provide such assistance within the specified boundaries of the City of Oakdale. Any revenue generated by the Seed Fund to the EDA is incidental to the community benefits as measured by the creation and retention of jobs, increased tax base, expanded business ownership activities and improved community services.

Authority

Chapter 469 of the Minnesota State Statutes as amended authorizes the EDA to make loans to prospective private businesses. Recipients of financial assistance under this program are subject to non-discrimination requirements of the laws and policies governing such government assistance.

**Project
Financed
By the Oakdale
Seed Fund**

The purpose of the Oakdale Seed Fund is to provide assistance to small business. This may occur by directly providing financing to the small business or indirectly by providing financing to a developer who will build a facility to assist a small business.

**Eligible Applicant
Defined**

Applicants may be small businesses or developers that are organized as a proprietorship, partnership or corporation.

**Size Eligibility
For Businesses**

For purposes of the Oakdale Seed Fund, a business may qualify if its sales are less than \$6 million annually for each of the last two fiscal years preceding the application for assistance from the fund. The Economic Development Authority may make exceptions to this rule on a case-by-case basis.

**Sound Business
Purpose**

The proceeds from a loan made through the Oakdale Seed Fund are to be used to assist an identifiable small business concern or a developer in accomplishing a sound business purpose. A sound business purpose would not exist if any of the following conditions occur:

- a) If the project proposed will destabilize existing multi-tenant facilities or have an adverse impact on them.
- b) If it is to accomplish an expansion or conversion which is unwarranted in light of the small business concern's past experience and management ability.

Ineligible Projects

- a) Retail businesses
- b) Nonprofit institutions
- c) Gambling organizations
- d) Lending or investment organizations
- e) Land held primarily for sale or investment

Project Costs

“Project costs” should be limited to direct expenditures necessary to acquire, construct, convert, or expand a business including site improvements and professional fees directly attributable and essential to a project such as survey, engineering, architectural, legal and accounting. In this context legal expenditures for such items as zoning changes title searches, title insurance, recording fees, etc., which are clearly essential to the total project can be included as project costs. While there is considerable flexibility in determining the composition of a project, in general it should be a productive asset when completed. In the classic sense, this would be land, building, machinery, and equipment.

Elements of Project Costs

In developing the aggregate project costs for the Oakdale Seed Fund the following guidelines will be used:

Land

Valuation of land injected by the small business concern into the project should be at the appraised value based on an appraisal acceptable to the EDA. The appraisal should conform with current bank regulatory requirements.

Land Improvements

Improvements which are paid through special tax assessments or user fees should not be included in determining project costs. Improvements to the land which are a portion of the project cost could include but are not limited to the following:

- 1) Grading
- 2) New streets or street improvements including curb and gutter
- 3) Parking lots
- 4) Utilities – water, sewer, gas, electric or
- 5) Landscaping

Purchased and/or Remodel an Existing Building

The cost of purchasing an existing building generally includes the value of the land and applicable fees and charges required to gain clear title to the property. Purchasing an existing facility with funds provided by the Oakdale Seed Fund is permissible.

Building Construction

Construction includes the erection of a new building and/or a major addition to an existing building.

Purchase Machinery and Equipment

Oakdale Seed Fund proceeds can be used to finance the purchase of major items of machinery and equipment independent of land and building. These items are defined to have a useful life of at least 7 years. The term of the loan will be commensurate with the life of the asset.

Ineligible Project Costs

The following costs should not be construed as part of the project costs under this program.

- a) Management fees

- b) Financing costs and fees
- c) Franchise fees
- d) Debt consolidation
- e) Moving costs

**Leasehold
Improvements**

Financing should be permitted for leasehold improvements including construction on leased land. The lease should be equal to or greater than the term of the loan. The remaining economic life of the facility or leasehold improvements should be equal to or greater than the term of the Seed Fund loan. Financing may be provided if the land or building owner allows the EDA to secure lien positions on the land or building and improvements, sufficient to fully secure its exposure or if other collateral sufficient in value to fully protect the interest of the Oakdale EDA is offered.

**Limited or
Single Purpose
Assets**

The construction or the purchase of limited use assets should not be financed under the Oakdale Seed Fund unless the liquidating value of the asset plus other available collateral, if sold, would be sufficient to protect the Oakdale EDA from realizing a substantial loss.

Working Capital

Proceeds from an Oakdale Seed Fund loan should not be used for working capital or to refinance prior obligations of the small business concern.

**Availability of
Personal
Resources**

Since the primary focus of the Oakdale Seed Fund is economic development, personal resources of the owners or principals of the small business concern should not usually disqualify the small business concern from receiving assistance. Where credit factors indicate the need for additional capitalization, the injection of personal resources may be required to make the loan credit-worthy.

Personal

Guarantees

The EDA should require the personal guaranty of any person owning 20% or more of the small business concern regardless of the form of ownership.

**Participants
And Structure
Of Project
Financing****Maximum Private Sector Exposure**

The Oakdale Seed Fund is designed to foster projects contributing to sound economic growth in Oakdale in such a way that maximum private sector exposure is stimulated and encouraged. The Seed Fund should not be a substitute for conventional business financing or be used in place of other specialized state, federal or local programs that may be better suited to the specific project needs. In most Seed Fund projects a private sector lender will make a separate secured loan equal to a certain percentage of the total project cost and will usually be secured by a senior lien on project assets acquired with the financing. The EDA's share of the project financing will usually be secured by a junior lien position on project assets. The EDA will use the Seed Fund to participate with the private sector lender in making the total loan to the small business concern.

**Private Sector
Lender**

Financing may be provided by regulated and/or non-regulated financial institutions or noninstitutional sources if they are in the business of providing financing for commercial purposes and they are not associated with the small business concern receiving financial assistance. The terms and conditions of such financing must be acceptable to the Oakdale EDA based on the small business concern's ability to repay the Oakdale Seed Fund Loan.

Interest Rate

The lender and EDA may establish their own rate provided the rate is legal and reasonable. The lender and EDA may charge either a fixed or variable rate of interest on their loan. A renegotiable rate of interest is acceptable provided terms and conditions are established and agreed to both by the Oakdale EDA and the lender at the time of the loan approval. The EDA must be aware of the lender's terms and conditions in assessing the small business concern's ability to repay the Oakdale Seed Fund Loan.

Balloon**Payment**

Such payments may be considered where circumstances warrant their use.

Amount

The maximum amount of private lender financing should be included in each project. At least 50% of the project cost should be funded by a private lender.

Maturity

Maturity must be reasonable in relation to the life of the asset being financed. In no instance should the maturity of the Oakdale Seed Fund Loan exceed the maturity of the loan being provided by the private lender.

Personal**Guarantees**

The EDA requires the personal guaranty of any person owning 20% or more of the small business concern regardless of the form of ownership. Where ownership ranges from 5% to 19% the requirement for personal guarantees is discretionary. A partial guarantee may be considered for less than the total amount of the loan. Generally, a guaranty will not be required where ownership is less than 5%.

Alter Ego Loans

For tax and other reasons some small business owners prefer to separate the ownership of the asset from the operating small business concern. In such cases the small business owners form two legal entities: One entity owns part or all of the fixed assets and the other entity is the operating company. Loans will be permitted to the "alter ego" (passive concern) which is an eligible small business concern when:

- a) The applicant (passive concern) is a business entity that is organized and operated for profit, whether operating as an individual proprietorship, partnership or corporation;
- b) The operating small business concern is an eligible small business and the proposed use of proceeds would be allowable for such assistance if the operating small business concern were the owner of the property that is owned or to be owned by the applicant;
- c) The ownership interests in the applicant shall be completely identical with and in the same proportion as the ownership interest in such operating small business concern;

- d) Collateral includes an assignment of the lease between the applicant and the operating small business concern and a lien on the property itself. The lease, including options, shall be for a term of not less than the term of the loan;
- e) The operating small business concern must be either a guarantor or co-borrower, and any owners of 20% or more of the equity of the operating small business concern and of the applicant must also guarantee the loan.

Franchises

A franchise is eligible for the Oakdale Seed Fund if the franchise has the right to profit from his/her efforts commensurate with ownership and is eligible in all other respects. Franchises are ineligible only in the exceptional cases where the franchise agreement disguised as a contract of employment under the guise of a franchise operation. Where royalty or similar payments must be made by the borrower to the franchisor, a condition should be considered that prohibits such payment as long as the EDA loan is in default. Where credit factors warrant, guarantee of the franchisor should also be considered.

Operational Requirements

Responsibilities of the EDA/Oakdale Seed Fund

The Oakdale EDA/Seed Fund will offer its assistance to small business in need of financing. It will cooperate with other lenders participating in projects. The EDA and the Seed Fund are able to:

- a) Package and process loan applications
- b) Close and service loans
- c) Make available management services or cause such services to be made available
- d) Maintain the organizational and operational requirements set forth in these administrative guidelines

Disclosure of Information

On a loan application, no recommendation of any individual, (including a loan officer, city staff person or EDA board member) may be divulged directly or indirectly to an applicant, or to any of its representatives or any other unauthorized source. Only final EDA actions may be released.

Diversified Portfolio

The EDA will not concentrate the Seed Fund in any one type of industry. The EDA is encouraged to make loans to a variety of businesses in different industries. The Oakdale Seed Fund is designed primarily to assist existing healthy businesses to grow and create jobs. While new businesses (businesses in existence for less than two years) do create jobs, they should be considered for Seed Fund financing only after careful scrutiny as to management capability, experience, and financial support.

Place of

Business

The EDA shall maintain an accessible place of business open to the public during regular business hours and maintain staff adequate to perform normal business transactions. The EDA's place of business shall be located within the Community Development Department of the Oakdale City Hall.

Fiscal Year

The EDA shall choose and establish a fiscal year. The EDA is encouraged to establish a fiscal year which coincides with the City's fiscal year (January 1 through December 31).

Records

The EDA shall maintain financial records including books of accounts and minutes of all meetings of the directors. All records and supporting documents relating to the EDA's transactions shall be kept at its' principal office. Records and documents which are the basis for or related to the financial statements or loans shall be preserved for the periods required by the Internal Revenue Service (IRS) in accordance with generally accepted accounting practices.

Maintaining Loan Portfolio

Documents

The EDA shall develop a filing and control system which ensures that the following information and documents relating to its loan portfolio are available at its principal office. The EDA filing system must contain information and documents related to each loan made through the Seed Fund as follows:

- 1) Loan application including all exhibits;
- 2) Loan authorization and all correspondence related to the loan prior to closing;
- 3) Loan closing documents including all documents relating to participation with the private lender;
- 4) Evidence of a 10% equity injection by the small business concern;
- 5) Amortization schedule;
- 6) Financial statements of the small business concern;
- 7) Related correspondence;
- 8) Evidence of field visits;
- 9) Condition of collateral;
- 10) Tickler file for insurance and UCC;
- 11) Evidence that taxes and insurance have been paid;
- 12) All other items relating to the loan.

Restrictions

Conflicts of Interest/Self-Dealing

Self-dealing by the EDA, its Board of Directors, employees or any other related parties to the prejudice of the small business concern, or the EDA is prohibited. The EDA shall not permit a significant relationship to exist or to be created between the EDA and a small business concern to be assisted while assistance through the Seed Fund is outstanding.

**Servicing
Capability**

In most cases, the EDA will service the loan. The EDA may require that the private lender to service the loan. In this instance, a servicing agreement will be completed between the private lender and the EDA. Costs of servicing will be paid for by the applicant.

**Notice of
Default**

In cases where the private lender is servicing the loan, the lender must agree to furnish the Oakdale EDA with written notice of any default by the small business concern within thirty (30) days of the date of default. The lender must give the Oakdale EDA sixty (60) days notice prior to a foreclosure sale. This agreement must incorporate provisions providing for a timely written notification from the lender to the Oakdale EDA of any default, delinquency by the small business concern on the lender's portion of the financing and the right of the Oakdale EDA to an immediate purchase of the lender's senior position in the loan thereby allowing the EDA the opportunity to protect its position and to avoid the accumulation of legal costs, preservation expenses, etc.

**Loan
Processing**

Repayment ability

An Oakdale Seed Fund Loan must be secured so as to reasonably assure repayment. Reasonable assurance of repayment takes into consideration earnings, management ability and financial condition of the borrower as well as the value of collateral.

**Process for Analyzing
Loan Applications**

The intake of loan applications will be completed by the Community Development Department staff of the City of Oakdale. Upon receipt of a complete application, the staff will complete an initial review to determine the ability of the program to address the identified financing need. If the project meets the intent and general parameters of the program, the application will be forwarded to the city's economic development consultant who will complete additional due diligence work on the application. The consultant will provide a report on the loan request to the Loan Committee of the EDA. The loan committee will make a recommendation to the Economic Development Authority who will make the final decision on the loan request.

Credit Information and Credit Reports

Upon receipt of the loan application, a credit report will be ordered from the private lender participating in the project. The report will be provided to the Oakdale EDA if the lender receives permission from the borrower. If the application package includes an acceptable credit report or sufficient credit information is supplied by the small business concern/lender or is available from other sources a new credit report may not be needed. Letters should be written by the private lender to credit references and others where necessary to determine the applicant's credit standing. Telephone contact should be made with credit references where appropriate.

Credit Requirement

The small business concern must meet certain practical credit requirements including the following:

- 1) The applicant must be in good character as determined by the private lender and the Oakdale EDA.
- 2) There must be evidence that management has the ability to operate the business successfully.
- 3) The small business concern must have enough capital in the business so that with the assistance through the Oakdale EDA and Seed Fund it will be possible for the business to operate on a sound financial basis.
- 4) While the questions of security and collateral are important in determining whether financial assistance will be extended, they are not the only factors upon which the approval or rejection of an application is determined. The Oakdale EDA attaches great importance to management, the inherent soundness of the small business concern, the small business concern's earnings records and prospects, the small business concern's long-range possibilities for successful operation and whether the granting of financial assistance will increase employment or have other favorable effects on the economy of the City of Oakdale.

Financial Statement Requirements

The loan officer of the private lender must evaluate the reliability of the financial statement submitted. All statements must be signed and dated by the proprietor, a

partner, or unauthorized officer of the applicant unless they are accompanied by an independent accountant's report. Statements submitted on a compilation basis must be signed by the small business concern owner or designated officer.

Business Financial Statements

Balance sheets, profit and loss statements and statement of change in financial position are normally required for the preceding two full years. In addition, an interim statement for the current period is required when the application is received more than ninety (90) days after the end of the last fiscal year. An aging of accounts receivable and payables should accompany the interim balance sheet.

Analysis of Loan Applications

Additional Data

Additional financial data or written explanation may be required where necessary for an adequate analysis. This is especially true for new businesses or for existing businesses planning major changes in their operations. Both cases should require earnings projections. Cash flows or other types of data may be required where deemed necessary and appropriate.

Personal Financial Statements

Personal financial statements are required for proprietors, general partners each owner of 20% or more of the business including limited partners and guarantors. All statements must be signed and dated.

Processing Time

All loans are to be processed within thirty (30) working days. The processing cycle will begin with the day the application is received as indicated by a date stamp and ends when the loan authorization is issued. Time awaiting the receipt of additional information will be excluded from the processing time. If major delays are anticipated in receiving additional information to complete the package,

the application will be returned to the small business concern within three (3) working days.

Loan Servicing

There are two options for loan servicing. The EDA may elect to have loans serviced by lenders participating in the financing for any project or service the loan internally. The EDA may require the servicer to obtain and review the financial statements of the small business concern annually; review the small business concern's payment of taxes and insurance, review the uniform commercial code filings on collateral and monitor other financing senior to the loan to assure that payments are current.

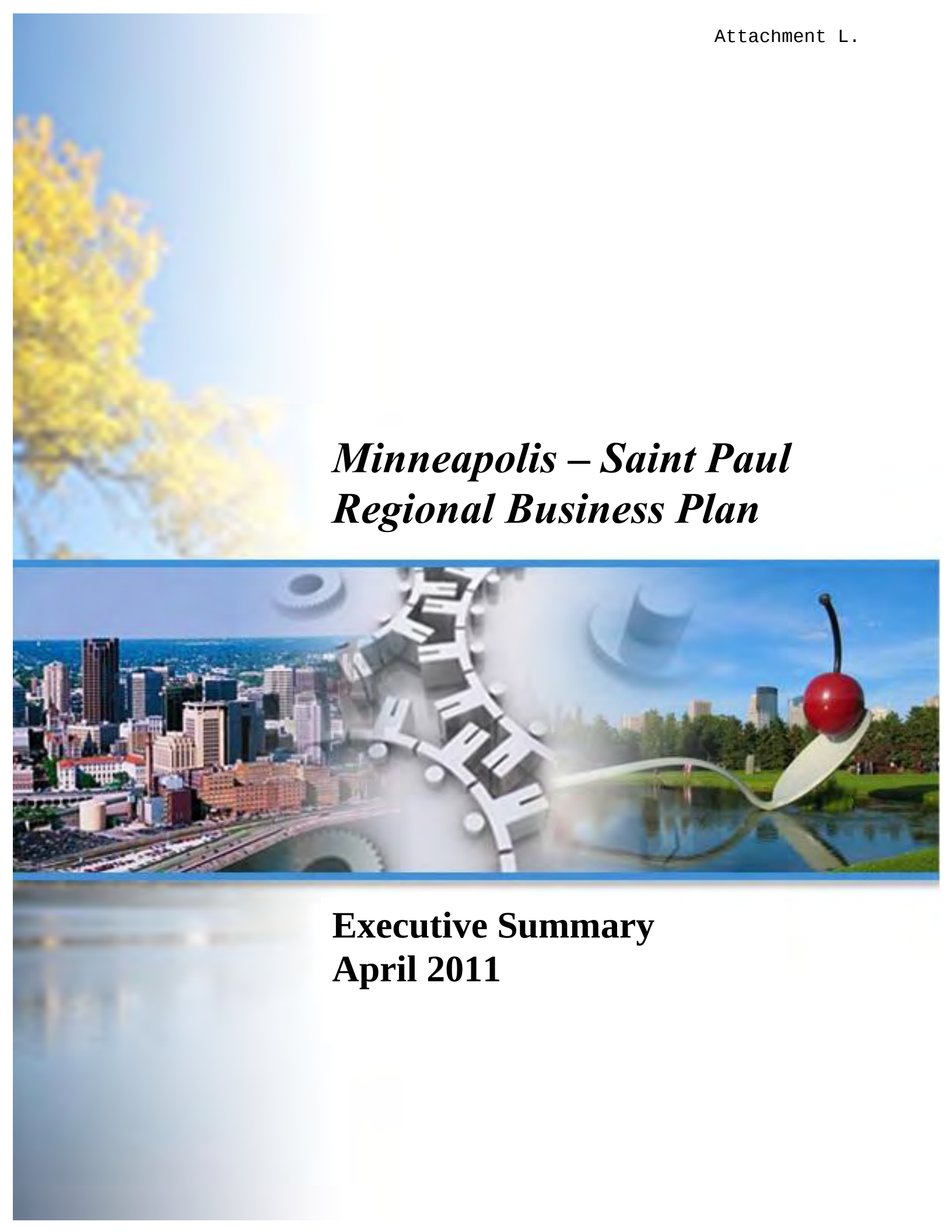
The EDA may also require the servicer to make field visits as necessary to review the condition of collateral and report to the EDA any default or any other adverse trend condition or information as they occur and take or propose remedial servicing actions as ordinarily performed by a prudent lender. The EDA will provide written instructions to the servicer outlining the services that need to be provided as a part of the servicing contract. In addition, the servicer will not, without the prior written authorization of the Oakdale EDA, authorize any actions regarding the EDA loan including:

- 1) Make or consent to any substantial alteration in the terms of the loan instrument.
- 2) Make or consent to release of collateral.
- 3) Accelerate the maturity of the note.
- 4) Sue upon the loan instrument.
- 5) Waive any claim against borrower, guarantor, obligor or stand-by creditor arising out of the loan instrument.
- 6) Directly or indirectly charge or receive a bonus, fee, commission or other payment or benefit in connection with the making and servicing of the loan except as authorized by the program.
- 7) Require or obtain any funds, certificates of deposit or compensating balance not under the unrestricted control

of the small business concern or any other agreement establishing any preference in favor of the lender.

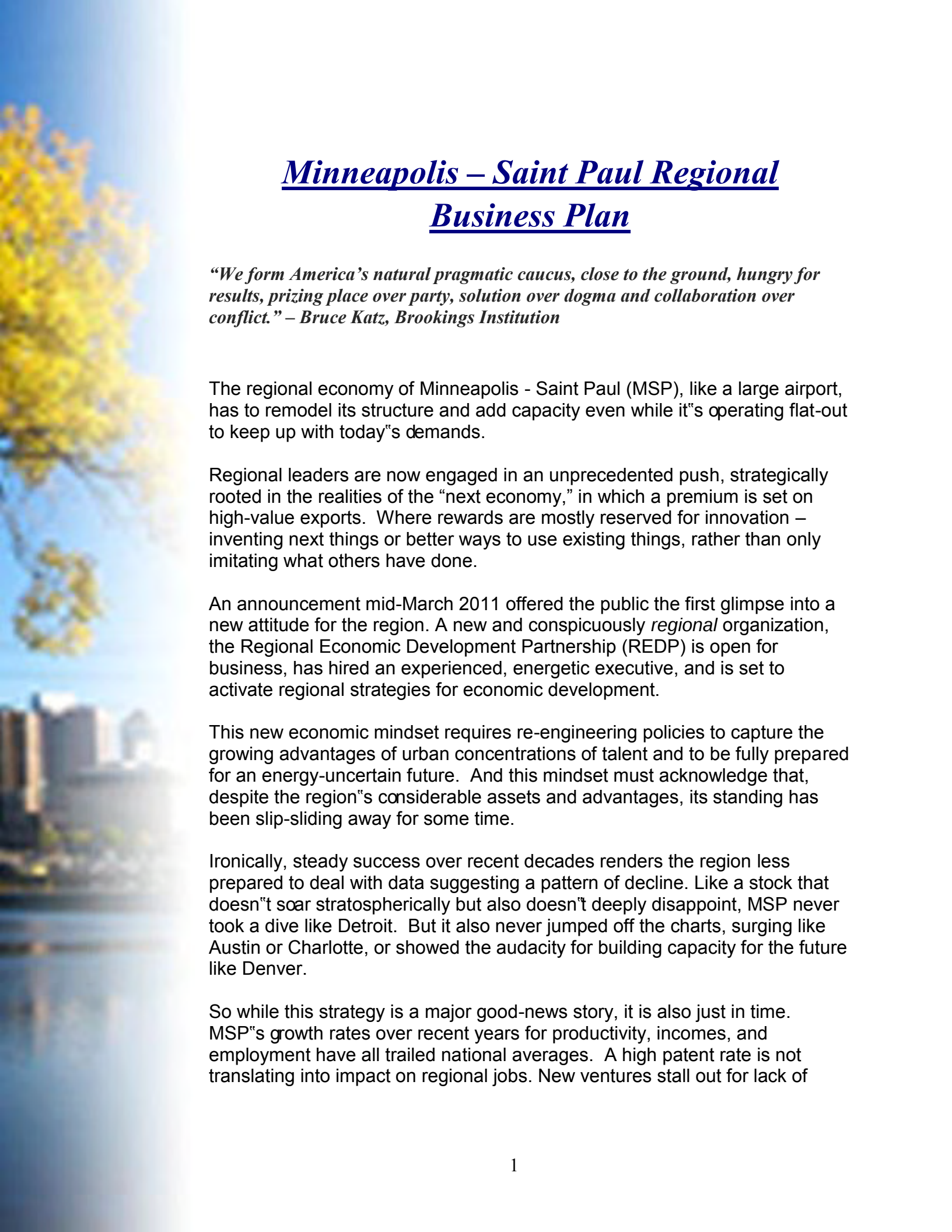
Repayment

The servicer is required to ensure the timely forwarding of the small business concern's monthly payment to the Oakdale Seed Fund.



Minneapolis – Saint Paul Regional Business Plan

Executive Summary April 2011



Minneapolis – Saint Paul Regional Business Plan

“We form America’s natural pragmatic caucus, close to the ground, hungry for results, prizing place over party, solution over dogma and collaboration over conflict.” – Bruce Katz, Brookings Institution

The regional economy of Minneapolis - Saint Paul (MSP), like a large airport, has to remodel its structure and add capacity even while it’s operating flat-out to keep up with today’s demands.

Regional leaders are now engaged in an unprecedented push, strategically rooted in the realities of the “next economy,” in which a premium is set on high-value exports. Where rewards are mostly reserved for innovation – inventing next things or better ways to use existing things, rather than only imitating what others have done.

An announcement mid-March 2011 offered the public the first glimpse into a new attitude for the region. A new and conspicuously *regional* organization, the Regional Economic Development Partnership (REDP) is open for business, has hired an experienced, energetic executive, and is set to activate regional strategies for economic development.

This new economic mindset requires re-engineering policies to capture the growing advantages of urban concentrations of talent and to be fully prepared for an energy-uncertain future. And this mindset must acknowledge that, despite the region’s considerable assets and advantages, its standing has been slip-sliding away for some time.

Ironically, steady success over recent decades renders the region less prepared to deal with data suggesting a pattern of decline. Like a stock that doesn’t soar stratospherically but also doesn’t deeply disappoint, MSP never took a dive like Detroit. But it also never jumped off the charts, surging like Austin or Charlotte, or showed the audacity for building capacity for the future like Denver.

So while this strategy is a major good-news story, it is also just in time. MSP’s growth rates over recent years for productivity, incomes, and employment have all trailed national averages. A high patent rate is not translating into impact on regional jobs. New ventures stall out for lack of

financing and critical assistance. Venture capital levels have dropped to a 15-year low, with the number of VC firms in Minnesota slipping from 38 to 15.

New business start-ups – and failures – are typical measures of a robust entrepreneurial economic climate. MSP numbers have slipped from a level 25 percent higher to a level at just the national average. Over just the last few years, the proportion of entrepreneurs in the regional economy has slipped from 22nd in the nation to 48th – not a good sign.

The majority of growth in the labor force is coming from the segment of the population that's historically done least well with education, just as it seems certain that three-fourths of all the available work will require some relevant post-secondary preparation.

These signs are ominous but not predictive. MSP does not start from nothing.

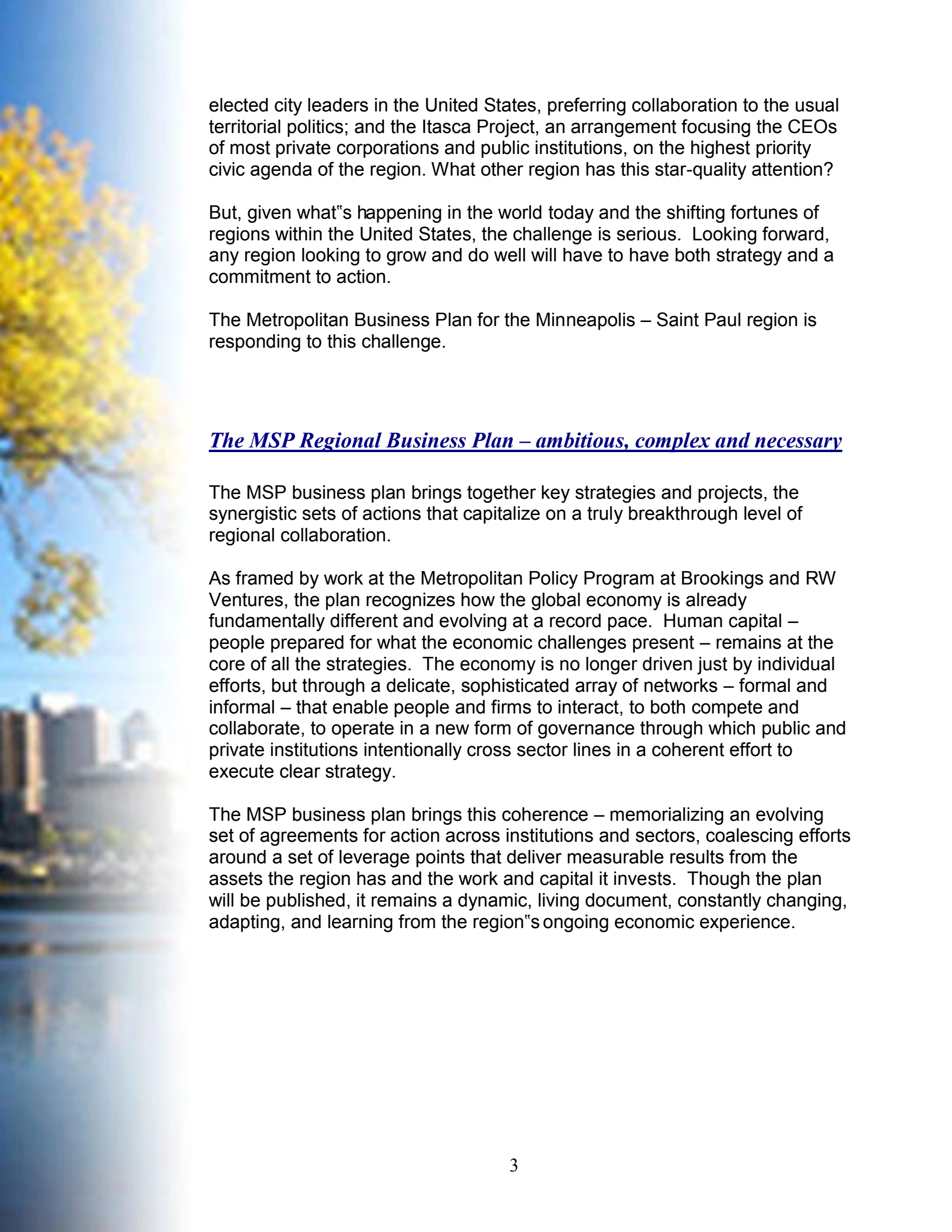
What other region in the United States has as many large business corporations per capita? None. With 20 Fortune 500 headquarters, most of them homegrown over many decades, MSP ranks at the top.

Few other regions can boast better-educated people active in the work force. With nearly 38 percent of adult residents holding a college degree, MSP consistently outpaces most American regions. Combining its educated population with the base of large sophisticated, mostly internationally operating companies, MSP made an early migration from the „resources“ economy of the mid-20th century to the rapidly expanding „knowledge“ economy. Despite the effects of the recent recession, MSP's wage levels, unemployment rates, and productivity increases have fared better than the U.S. average.

The proportion of immigrants in the regional population has almost tripled in the past 20 years. And while the number of these newcomers with too little education is a challenge, the percentage that is college-educated is actually higher than those born in the U.S. Overall, newcomers match up well on the percentage working in the economy, suggesting an emerging capacity for the level of diversity to be globally competitive.

There are also structural advantages. MSP is one of the few regions in the U.S. with one large metropolitan region that is the state's capital and home to its major research university, and can claim a concentration of the state's largest business operations. Other than Portland, Oregon, MSP is the only region in America with any formal public-sector capacity for thinking, planning, and acting as a metropolitan region. MSP's Metropolitan Council dates back to the late 1960s, and while it continues to be controversial for its role and powers, it's a continuing asset in the face of 21st century challenges.

And this asset is now enhanced by the emergence of the Regional Council of Mayors – one of the few voluntary informal governance arrangements among



elected city leaders in the United States, preferring collaboration to the usual territorial politics; and the Itasca Project, an arrangement focusing the CEOs of most private corporations and public institutions, on the highest priority civic agenda of the region. What other region has this star-quality attention?

But, given what's happening in the world today and the shifting fortunes of regions within the United States, the challenge is serious. Looking forward, any region looking to grow and do well will have to have both strategy and a commitment to action.

The Metropolitan Business Plan for the Minneapolis – Saint Paul region is responding to this challenge.

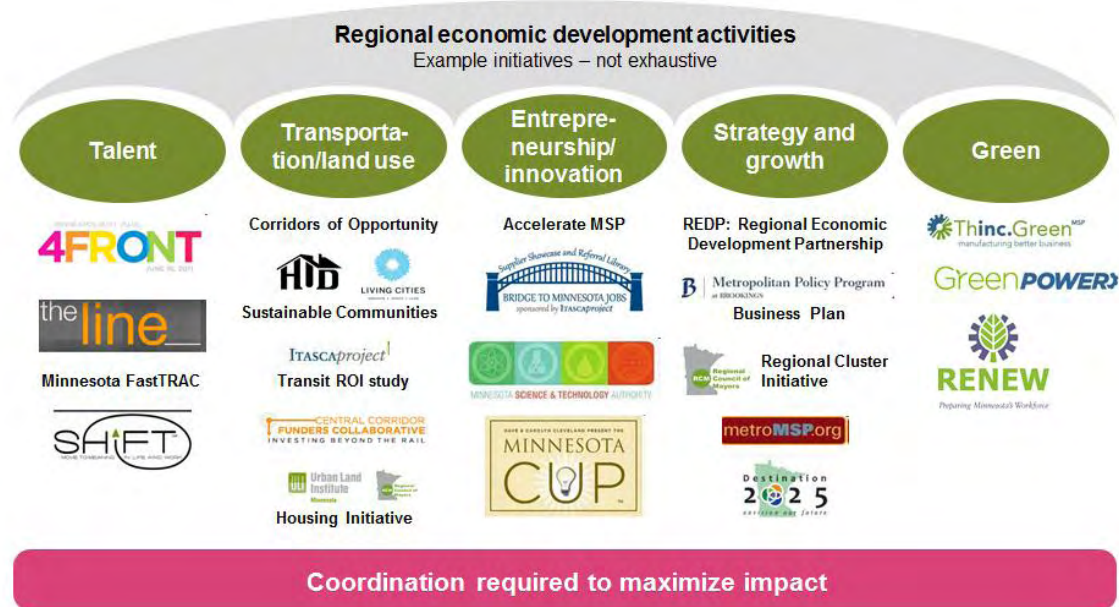
The MSP Regional Business Plan – ambitious, complex and necessary

The MSP business plan brings together key strategies and projects, the synergistic sets of actions that capitalize on a truly breakthrough level of regional collaboration.

As framed by work at the Metropolitan Policy Program at Brookings and RW Ventures, the plan recognizes how the global economy is already fundamentally different and evolving at a record pace. Human capital – people prepared for what the economic challenges present – remains at the core of all the strategies. The economy is no longer driven just by individual efforts, but through a delicate, sophisticated array of networks – formal and informal – that enable people and firms to interact, to both compete and collaborate, to operate in a new form of governance through which public and private institutions intentionally cross sector lines in a coherent effort to execute clear strategy.

The MSP business plan brings this coherence – memorializing an evolving set of agreements for action across institutions and sectors, coalescing efforts around a set of leverage points that deliver measurable results from the assets the region has and the work and capital it invests. Though the plan will be published, it remains a dynamic, living document, constantly changing, adapting, and learning from the region's ongoing economic experience.

The Time is NOW to Bring Together Multiple Regional Efforts



Six Critical Leverage Points

The MSP plan is organized around six critical leverage points, developed through research at the Brookings Institution:

Concentration of Industries, Functions, and Occupations

Often labeled as „cluster analysis,” this logical starting point essentially asks how the region makes its living today? Clusters encourage greater productivity within firms and attract similar firms; they add up to a large, shared pool of human talent and set the stage for more idea-generation, more intense interactions, and greater likelihood of innovative breakthroughs. The MSP cluster analysis quantifies the region’s multiple clusters in the regional economy and confirms three stand-outs in the top ten – Medical Devices, Distribution Services and Financial Services – a powerful group when combined with the unusual concentration of headquarters firms (see Figure 1).

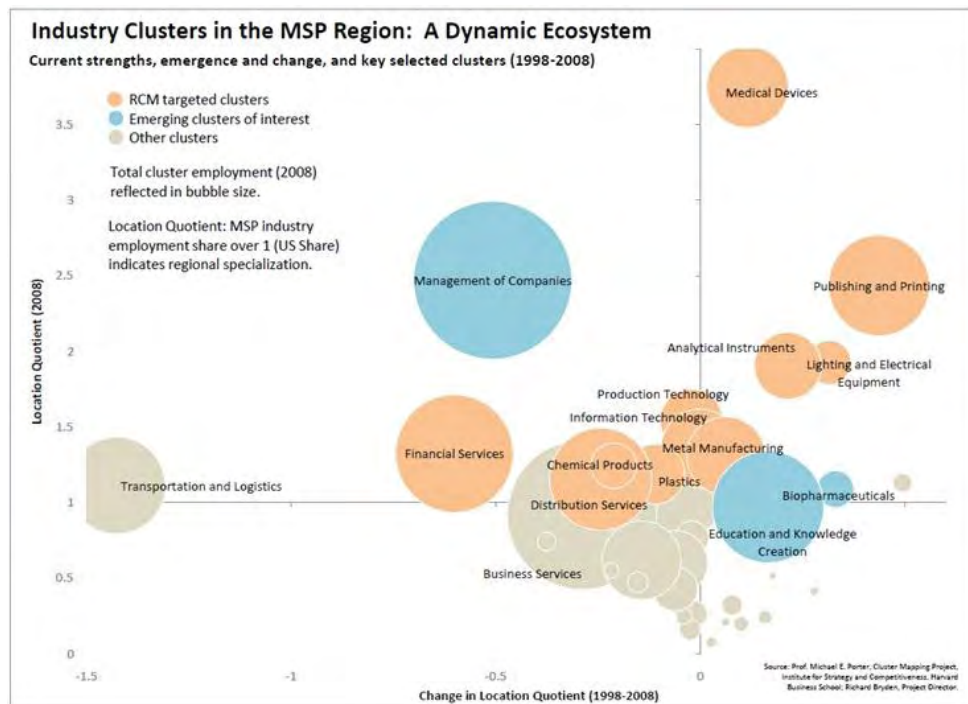


Figure 1: Minneapolis – Saint Paul industry clusters

What is happening on the medical devices front shows the potential response pattern. Already in motion is the Biomedical Discovery District at the University of Minnesota; and the University Enterprise Laboratories, a Saint Paul incubator attracting firms that see advantages being close to the action at the university, and plans for a larger area dubbed the Minnesota Science Park.

Facilities are one thing. Getting organized is another. The Urban Land Institute Minnesota, the Regional Council of Mayors, the Humphrey School of Public Affairs and the state Department of Employment and Economic Development are producing a more muscular collaboration, called the Regional Cluster Initiative. A new „cluster board,” representing the medical device „flagship” concentration is also under way.

And the Itasca Project is launching something called the Business Bridge – linking large headquarters firms in these clusters with small and medium-sized firms to capitalize on competitive advantages.

Develop and Deploy Human Capital for Economic Growth

Minnesota students, like those all over the United States, are challenged to compete with a world in which nations hungry for economic success have highly rigorous education programs. Among U.S. regions, metro Minnesota remains something of an island of achievement, in the top five states in 2009

for math skills. While just over half of the nation's workers have some post-secondary training, two-thirds do in Minnesota, and 38 percent of the region's adult population actually has one or more college degrees. People in Minneapolis – Saint Paul work; a 72 percent participation rate is number two in the nation, and number one in the proportion of women working.

But there are at least three wrinkles in the skin of these statistics. The region's laudable proportion of college-educated workers is bolstered significantly by importing better-educated talent from elsewhere, a strategic asset only if it is sustainable. And growth in productivity measures has slipped to 58th among American regions. Most troubling is the persistent pattern of low graduation rates in multiple minority groups – often less than half on average -- while the white population rate continues to be nearly 80 percent. As recent census data highlight, these are the groups growing most rapidly and destined to be a bigger share of the future workforce, in an economy where nearly three-fourths of all available jobs will require some level of post-secondary preparation.

Among the ways of combating these conditions will be a "Promise Neighborhood" targeted at the Frogtown and Summit University neighborhoods, aimed at raising achievement and expectations. On the Minneapolis side of the urban center, AchieveMpls will help high school counselors promote opportunities for post-secondary, including an early awareness program about potential careers.

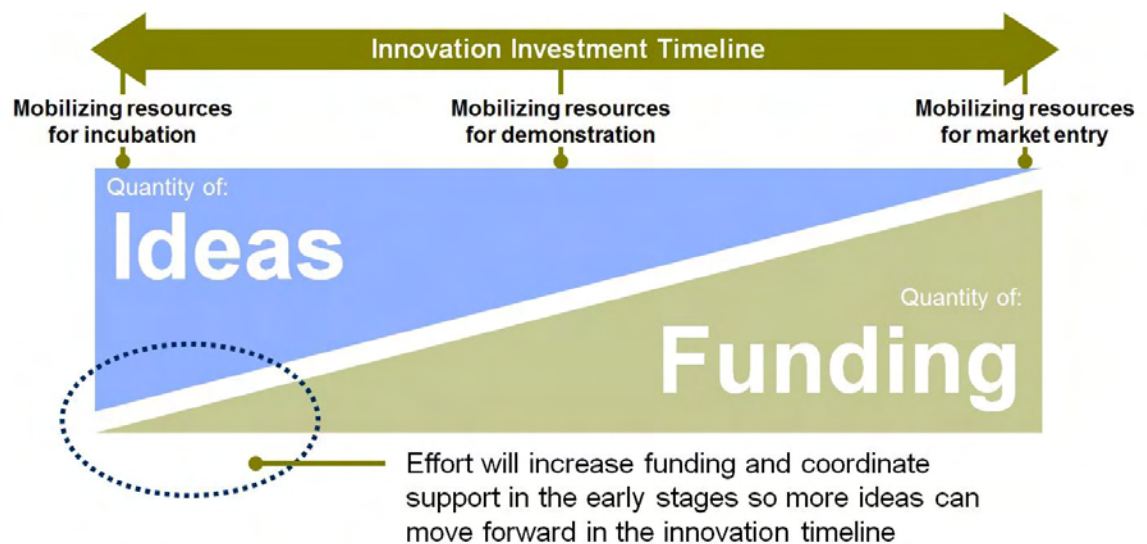
Thinc.GreenMSP is already at work creating more capacity for an industry committed to a low-carbon future. A collaboration between Ramsey County and Minneapolis will use a federal grant to train more workers for green-collar jobs, with a special focus on workers from low-income backgrounds. Similar training will come from the GreenPOWER program of the Minnesota BlueGreen Alliance. Another initiative, FastTRAC, will focus on displaced and lower-skilled workers, helping to build "stackable" credentials to bring them back into the productive workforce. RENEW targets a set of urban neighborhoods where poverty is 15 percent or higher. Yet another initiative, SHiFT, will focus on workers older than 50 who are open to new work in a new environment.

Develop an Infrastructure of Innovation and Entrepreneurship

Here lies a blunt truth begging for a response: despite all the advantages of headquarters firms and a major research university, the region's performance in the formation of new firms that employ 20-500 workers falls into the bottom half of U.S. metro areas. Entrepreneurs are not finding sufficient risk capital. Business „churn“ – the rate of new starts and closing of businesses, widely regarded as a measure of an innovative economy -- shows MSP ranking 44th.

Targeted response: an Entrepreneurship Accelerator

This initiative boldly promises to transform vulnerability into advantage. As an idea led by the city of Saint Paul, with guidance from by Jumpstart Inc. and supported by a collaboration of MSP organizations, an entrepreneurship accelerator (EA) will take dead-aim at the gap in the region's entrepreneurial infrastructure – the lack of expert services and risk capital to help prepare the large number of high-potential technology-based opportunities that can become new high-growth companies, ready and able to attract angel or venture capital. With the help of JumpStart and a group of regional leaders, a large number of these high potential opportunities has been identified. These opportunities are based on protectable intellectual property developed by creative, motivated entrepreneurs.



The EA will provide intensive entrepreneurial assistance to 30 or more of these entrepreneurs per year and will invest between \$350,000 and \$700,00 in four to six of these opportunities. The EA will help many of these companies attract the capital and talent they require to enter the market, generate revenues and profits, and create sustainable high-paying jobs.

In addition, the EA will help accelerate the growth of the Region's entrepreneurial sector and help to advance federal policy supporting innovation and entrepreneurship.

Again, this effort does not start from a zero point. The region is already rich in organizations with shared aspirations to help the region make the leap to an innovation-based, entrepreneurial regional economy.

But this accelerator takes a crucial step toward demonstrating the region's capacity to build policy and organizational infrastructure oriented to incentives

and opportunities. Multiple organizations are working together both for advocacy and to make the connections that result in commercialization of the best entrepreneurial ideas. Among organizations at work on this agenda are the Collaborative, LifeScience Alley, the BioBusiness Alliance, the Metropolitan Economic Development Association, the Minnesota High Technology Association, Minne*, MOJO Minnesota, CleanTech Open and the Minnesota Cup competitions.

Increase Spatial Efficiency

Essentially, this is the bet a region makes about the future place-based rules of economic competition. Over the past half century, the MSP region has allowed itself abundant space for living, working and moving from place to place. Never a very dense metropolitan region, it became more spread out over recent decades. Major employment centers, once fairly concentrated, are now spread to at least 20 different places. Even with a good bus system and the beginnings of a fixed rail transit network, the region remains vulnerable as an auto-dependent place. When carbon scores are tallied, MSP does not score well.

The good news though comes from research showing that even as congestion has become a chronic problem on the region's roads, actual access to destinations has shown modest improvement. The explanation: people are, on their own, moving to denser locations, closer to recurring destinations. Cities in the region are changing land use policies to allow denser, mixed-used redevelopment.

The MSP business plan responds by:

Pushing for a complete transit system, connecting major employment and service destinations (see Figure 2).

Concentrating on the challenges and opportunities in transit corridors, through the Corridors of Opportunity program, collaboratively sponsored by Living Cities and the U.S. Department of Housing and Urban Development's Sustainable Communities Regional Grant Program. The work includes planning and engaging citizens to create distinctive places, strengthen local assets, increase transit ridership, and expand access to jobs, affordable housing, and essential services for residents of all incomes and backgrounds. It will build on lessons learned in the Central and Hiawatha Corridors to produce an integrated planning and investment regional model.

Continuing support for the Livable Communities Program, with its ongoing investment in affordable housing, economic revitalization of communities and vital links between land use policy and transportation.

Cultivating further connections with ongoing work on transportation and housing, especially as they relate to jobs and the environment, through the collaborative efforts of ULI Minnesota and the Regional Council of Mayors.

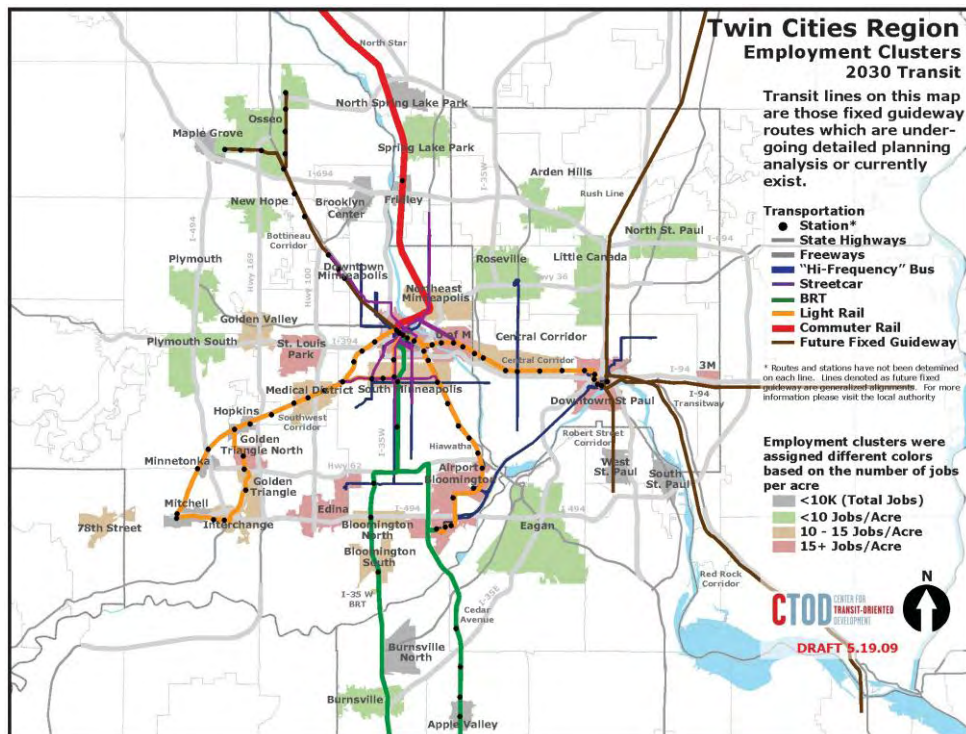


Figure 2: Transit system links to employment centers

Create Effective Public and Civic Culture and Institutions

MSP has a stellar collection of nation-leading institutions. But when it comes to a strategic approach to economic development, the region is not today anything-leading. More than 40 organizations stake some claim to producing better economic development results. The Metropolitan Council, with all its earned plaudits for taking an orderly approach to development and producing important efficiencies in the cost of regional services, does not really pull any of the economic development levers. Chambers are many and loosely coordinated.

The MSP Business Plan is a bold response; it features a fast-tracked commitment to a private sector-led Regional Economic Development Partnership, charged with recruiting and retaining large and small business firms. Confronting a long-standing decentralized approach to economic development, and a cultural aversion to formalizing strategy, this initiative looms as the earliest serious test, the most visible first action step and potentially the first productive dividend.

Develop and Deploy Information Resources

No one questions the value these days of dynamic data to guide decisions. In most regions, however, the rhapsodic rhetoric outruns reality. The MSP business plan sets as a major goal to have and use databases relevant to goals.

Supported by both the Regional Benchmarks at the Metropolitan Council and the Wilder Foundation's Minnesota Compass data tracking, the Regional Economic Development Partnership's work will set and change course by the evidence of what pays off to make the Metropolitan Business Plan a continuing success story.

Who Will Make This Happen?

This is always the question about ambitious goals. How will it happen? Who will make sure that it does? The short answer: the team of allies that has come together and committed itself to an action agenda along with newly focused leadership support from the white house office of President Obama, the office of Governor Mark Dayton, the office of Senator Amy Klobuchar, the University of Minnesota and the Metropolitan Council.



This is the first moment in the history of the Minneapolis – Saint Paul region in which there exists such a potent collection of organizations and individuals coalescing around the goals of this plan. Consider the number of organizations coming together, forming this team of *regional allies*:

The MSP Metro Business Plan is a headline, a breakthrough move, an unprecedented commitment by this group of regional allies, a nation-leading collaboration of organizations and individuals, a powerful fusion of strategy and action. From this day forward, knowing how challenging the world is becoming, MSP is now a no-excuses zone. This work will get done.



Please see the full business plan and Accelerate MSP prospectus at <http://minnesota.uli.org/JobsEconomicDevelopment.aspx>

Acknowledgements

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