

## Park Dedication Fee: Community Planning and Economic Development Staff Response

The City is in the process of updating its Comprehensive Plan as required by state statute. One of the requirements of the update is to complete a Parks and Open Spaces plan. City and MPRB staff are working together to update the City's Comprehensive Plan and the MPRB's Comprehensive Plan. The City intends to adopt the MPRB plan as part of the required parks and open spaces element of the City's Comprehensive Plan. The current version of the Parks and Open Space section of *The Minneapolis Plan for Sustainable Growth (TMP)* states the following:

*"The City of Minneapolis will work with various partners to develop high quality open space in downtown by:*

- *Encouraging the creation of new parks and plazas that are within easy access to the majority of the downtown workforce and downtown residents*
- *Supporting the incremental greening of downtown through the addition of more trees, plantings and small open spaces<sup>1</sup>*
- *Promoting the Mississippi River as a major landscape feature and recreational opportunity*
- *Ensuring that people feel safe in downtown open spaces*
- *Encouraging activity in the parks and plazas seven days a week<sup>2</sup>"*

The current draft of the proposed MPRB Comprehensive Plan can be viewed at the following link: <http://www.minneapolisparcs.org/documents/about/compplan/comprehensive1.pdf>. See page 29 for the "Future Parkland and Facility Study Areas and Adopted Plans" section.

### ***The Need for Additional Parks and Open Spaces***

Unlike many large cities across the country, Minneapolis is growing. However, like its counterparts the city is also aging and diversifying. Five demographic trends are shaping cities, including Minneapolis<sup>3</sup>:

- *Population growth*—Minneapolis is one of five major cities experiencing population growth. That rate of growth is slow, but steady; in 2006 the city gained 177 residents.
- *Immigration*—If not for immigration, Minneapolis would have lost population in the 1990's. The challenge is retaining those residents in the city as they progress up the economic ladder.
- *Aging*—an aging population does not mean a less active population. People are living longer and maintaining active lifestyles well into their 80's.
- *Household formation*—Single person households are the largest increase in household type. Those living downtown tend to be singles, empty-nesters and childless couples.
- *Internal migration*—First ring suburbs will be areas of profound change and activity in terms of concentration of jobs, population and diversity. They will be our competition for jobs, housing and population.

The "Growth & Parks 7/2/07 draft" map illustrates areas in the City where growth and increased densities are anticipated. It also indicates the location of park and green spaces.

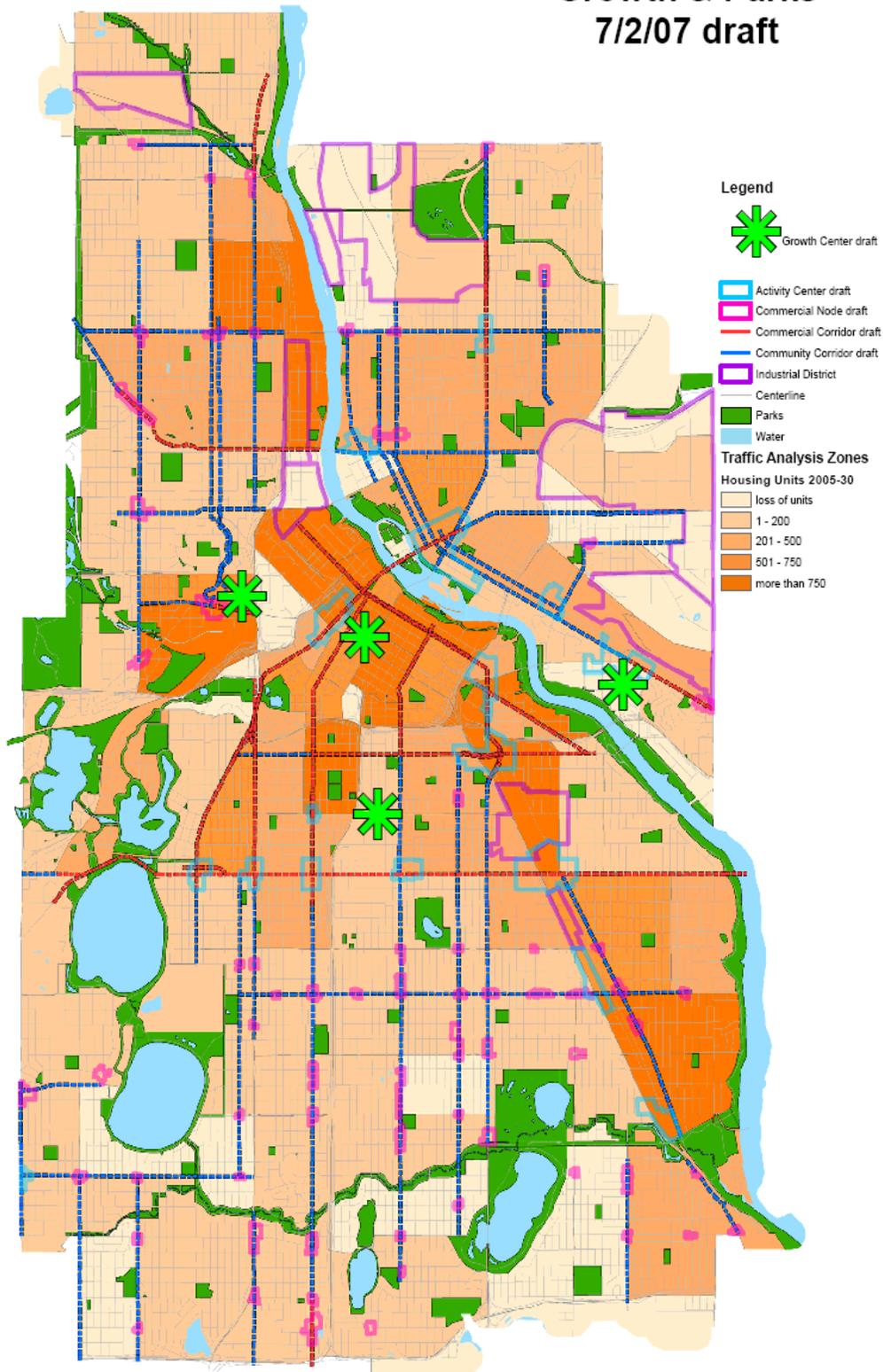
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<sup>1</sup> An approach toward greening downtown is happening through a grant with the McKnight Foundation which looks at the feasibility of increasing green space downtown.

<sup>2</sup> An example of increasing activity in downtown is the Walking Minneapolis project. Another example of improving pedestrian safety and mobility downtown is the Pedestrian Master Plan led by the Public Works Department. This project is in the RFP phase.

<sup>3</sup> Source: [Review of New Urban Demographics and Impacts on Housing](#) by the Brookings Institute

# Growth & Parks 7/2/07 draft



## **General Impacts of Park Dedication Fees**

CPED staff believes the introduction of park dedication fees may bring negative impacts to residential development in the City of Minneapolis. These findings are discussed below as they affect City-assisted projects and in terms of overall impacts anticipated in the housing market for projects not receiving City assistance.

### ***Impacts on Residential Development Receiving City Assistance***

Although affordable housing is excluded from consideration of the park board dedication fees, unless all projects with any City financial assistance are exempted from this new fee, park fee adoption will result in a dollar-for-dollar reduction in resources available to help the City reach its goals of affordable and life-cycle housing for its citizens. This will result in reduced progress in City achievement of its housing policy and development goals.

In particular, CPED staff are concerned that introduction of these fees will run directly counter to current efforts to provide mixed-income housing throughout the City, especially in impacted areas. It will provide a disincentive to development of market-rate units or units with less restrictive income requirements. Consistent with Council direction, mixed-income housing, especially in impacted areas, has been a clear priority in our ranking and scoring process and thus in our project pipeline. An analysis of City-assisted multifamily ownership and rental unit production over the last two years shows the impact that an ordinance like this would have on City-assisted projects with non-affordable units. Even with exemption of affordable units<sup>4</sup>, a fee like the one proposed would have triggered an additional \$1,926,000 in subsidies over this period to achieve the same production of new residential units. Even if the exemption applied only to units above 60% area-median income, the City would still have borne significant additional costs – another \$936,000 over the same period.

Minneapolis' Affordable Housing Policy currently requires that 20% of all units in a project receiving City assistance be affordable at or below 50% AMI. Accordingly, all City-assisted housing projects, including those receiving only tax increment financing, must include units of affordable housing. Any residential project receiving City assistance will, by definition, include affordable units. Since the City typically plays a role in providing gap financing for any projects with affordable units, any City-assisted projects will have additional affordability gap, attributable, dollar for dollar, to the imposed park dedication fee.

On this basis, to avoid distortion effects on affordability mix, additional loss of scarce affordable housing resources and a decline in production central to City housing policy and development goals, staff recommends that the City exempt all projects benefiting from City financial assistance from this new fee.

### ***Impacts on Residential Development Not Receiving City Assistance***

CPED staff has significant concerns regarding the impact of such fees on new unassisted residential development within the City. Multiple peer-reviewed academic studies have found that the fees are capitalized into the price of housing and land. Specifically, sample findings from recent studies include:

1. imposition of such fees reduced new residential development by more than 25%;
2. every \$1.00 in impact fees increases the price of new housing by \$1.60 and reduces the price of land by about \$1.00;
3. for each \$1,000 increase in impact fees, lot values increase by 1.3 percent and undeveloped land values decrease by .042 percent. Citations/copies of these articles can be provided at Council request.

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<sup>4</sup> Defined by the City to be affordable to households at or below 50% of Area Median Income, presently \$39,250 for a family of four.

CPED staff is concerned that such impacts would exacerbate challenges in the residential market, some of which are relatively unique to the City of Minneapolis and attributable to the greater history, density, and complexity of the most heavily populated city in the state. Compared to elsewhere in the region, housing developers in the City of Minneapolis often confront: greater environmental and Brownfield challenges; a higher level of review and consideration related to heritage preservation districts; schools with significantly greater challenges; and a more complex and time-consuming regulatory process for development reviews and approvals. The City has already had to increase property taxes to address consequences of cuts in Local Government Aid.

Any full evaluation of the level of proposed fee would, at minimum, evaluate the overall tax and fee burden for City residents relative to their counterparts in the region.<sup>5</sup> Such an analysis would also look more closely at the different and more significant challenges to residential development already in the City of Minneapolis compared to other metro-area jurisdictions using park dedication fees to finance park and open space improvements. Staff expects that such fees would further decrease the attractiveness of the residential development environment in Minneapolis, with additional effects in unrealized tax base potential and further exacerbate competitive challenges inherent to older, denser, and more populous cities like Minneapolis.

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<sup>5</sup> This would go importantly beyond reports that the proposed \$3,000 per unit (on non-affordable units) falls in the mid-range for the Twin Cities metropolitan region. Developers in Minneapolis already face many more challenges than they do in outlying jurisdictions with many “greenfield sites” from which to choose.

The “Future Parkland and Facility Study Areas and Adopted Plans” map illustrates the potential areas for new housing development and its proximity to current and planned parks and open space.

