

AGENDA ITEM – 3C



MEMORANDUM

DATE: February 9, 2026

TO: Honorable Mayor and City Councilmembers
Jessica Jagoe, City Administrator

FROM: Jake Reilly, Community Development Director

SUBJECT: Affordable housing policy

Budgeted Amount:
N/A

Actual Amount:
N/A

Funding Source:
N/A

Council Should Consider

Council should consider and provide feedback on the attached language for addressing affordability in Arden Hills in relation to the included draft proposal for an inclusionary housing ordinance designed to address affordability of new residential construction.

Background

At the October 27, 2025, work session, the City Council received information about affordable housing in Arden Hills and the relation to the housing market nationwide. At the December 8, 2025 work session, the City Council received additional information about local housing market dynamics and discussed various approaches to increasing the supply of affordable places to live in Arden Hills. At the January 12, 2026, City Council work session, direction was to bring back a draft ordinance or policy to address including required affordable units in project proposals. A draft ordinance is included as Attachment A.

As established in earlier memos on the subject, housing is considered affordable when it costs the owner or renter not more than 30 percent of their income, including taxes, utilities, and related fees. In today's rental market, separating out different fees from the rent has been a mechanism for multi-family property owners to both right size the cost of living to the tenant and recoup as much of the cost of the development and maintenance of a multi-family property and its amenities as possible, including addressing future property maintenance needs. In some cases, renter and/or homeowner insurance is included in that bundle of costs.

There are key factors in ensuring people of all kinds can live in a place, two of which are supply and perception. On the supply side, when there is a sufficient supply of homes available to renters or owners of any kind, scarcity isn't driving up the cost of a place to live. When it comes to

perception, both how “easy” a developer perceives a locality is to develop in and neighborhood perception all influence whether a developer of any kind will find a place desirable to build in.

Ultimately, supply of housing will come when the cost of land plus the cost of construction is of interest to a developer. Higher density buildings are profitable in the locations that support them. Lexington Avenue is a prime example of a place where higher density buildings are able to be built. Not only because the cost of land is lower but also because people can walk to and from major employers and many services and businesses. Some of this supply (relative to the cost of land) can be addressed through zoning code reforms.

Discussion

Inclusionary housing ordinance

Attachment A is a draft inclusionary housing ordinance that considers the previous discussions with the Council about affordable housing, tools described as acceptable and stated concerns about negative impacts to the tax base and/or accepted community standards. Attachment A offers an Arden Hills-specific and market-sensitive approach to affordability in new construction as well as rehabilitation of existing homes and attempts to address concerns raised during previous conversations about affordable homes such as design elements, need for municipal subsidy, lack of enforceability, and addressing maintenance-related concerns about affordability for existing residents and their homes.

Staff is seeking feedback on Attachment A and will begin processing this ordinance through consultation with the city attorney following feedback.

Zoning code reforms

Direction from the council on January 12 was also clear that the list of zoning code reforms to establish standards, reduce regulatory barriers and become more in line with provide and accepted professional practices around minimum standards for parking, lot size, and housing types. As staff evaluates the drafted updates to the zoning code, based on the conversations with Council about affordable housing, we intend to address the following items discussed with council in those updates. These include:

Reducing Required Parking:

Eliminating parking minimums continues to be the proven way to positively increase not only the number of homes constructed and also positively influence outcomes for small and large businesses alike. When parking and the land use are “unbundled” the developer can use their robust knowledge of the target market to determine how to right size the parking. If cities didn’t require parking, the market would supply it only when profitable. There would be fewer spaces, and spots that were frequently empty would be redeveloped. This is as true in large cities with transit options as it is for smaller cities with limited transit opportunities yet strong connections for people who walk or roll to parks, schools, businesses, services, and jobs, like in Arden Hills.

Selectively Increase Maximum Densities:

The cost of building housing has two components: the cost of land and the cost of building. There is a “sweet spot” that addresses the comprehensive plan goal to complement and preserve the character that is Arden Hills and the demonstrated need to build more places for people to live.

Allowing for mixed-income developments with sufficient density to move forward without subsidy while at the same time adding more options to add units to existing lots is the lowest cost option for cities to address housing affordability and a mix of housing types.

Looking at the adopted 2040 Comprehensive Plan, two directions with multiple solutions stand out:

- Encourage the incorporation of affordable and life-cycle housing into new development and redevelopment where feasible.
- Identify programs, policies, and strategies that encourage aging in community for senior citizens.

Related solutions are included in Attachment A. Based on the current market and the location of available sites for housing in Arden Hills, changing the overall density allowed in specific zoning districts such as R-4 Multiple Dwelling and B-2 General Business or in the High Density Housing and Mixed Use future land uses is more likely than not to yield success in the private market without requiring subsidy from the city.

Staff would also like feedback on pursuing two more options designed to generate successful affordable housing and businesses:

Create an Affordable Housing Fund

This statutory tool created by the Minnesota State Legislature offers a municipality an opportunity to save money directed specifically to creating or preserving housing and to do so in a way that is context sensitive and addresses all scales and aspects of housing from ownership to rental, including new construction and rehabilitation/repair. No tax levy is required. Council should provide feedback if this should be added to the agenda planning list for future work session discussion to receive more information on this topic.

Collaborate with Ramsey County

Ramsey County Community and Economic Development (CED) has a number of tools designed to help with housing affordability including technical assistance and dollars. The recently approved creation of a County Housing and Redevelopment Authority will allow for additional flexibility in the use of county funds to address housing needs at all scales. CED will be rolling out those programs over the next year. Programs offered by the county can also support initiatives important to Arden Hills such as supporting the business environment, helping older folks stay in their homes and/or in the community, and helping more new families move into Arden Hills and buy or rent homes. Staff will continue to collaborate with and promote appropriate county programs to Arden Hills residents and business owners.

Budget Impact

N/A

Attachments

Attachment A: Draft Inclusionary Housing Ordinance

CITY OF ARDEN HILLS

INCLUSIONARY HOUSING ORDINANCE LANGUAGE

DRAFT

1. PURPOSE AND FINDINGS

1.1 Findings

The City Council of Arden Hills finds and declares the following:

- a. The health, safety, and economic welfare of present and future residents of Arden Hills depends on the availability of housing choices affordable to people and families at various income levels, including those earning less than 80% of Area Median Income (AMI).
- b. Stable, safe, and affordable housing provides measurable health and economic benefits for individuals, families, and the community as a whole.
- c. There is a demonstrated need to encourage the development of affordable housing for Arden Hills' workforce and families.
- d. New residential development can accommodate existing demand for affordable housing for service workers, teachers, public safety personnel, and other essential community members.
- e. The preservation of naturally occurring affordable housing (NOAH) is critical as market pressures increase rents and threaten the displacement of existing affordable units.
- f. Economic integration of affordable housing within market-rate developments creates diverse, stable neighborhoods and prevents the concentration of poverty and the concentration of wealth.

1.2 Purpose

The purpose of this ordinance is to:

- a. Maintain a balanced community that provides housing opportunities for households at all income levels;
- b. Ensure housing opportunities for employees of businesses located in Arden Hills and the surrounding region;
- c. Implement affordable housing goals and policies contained in the City's Comprehensive Plan;
- d. Promote economic integration by including affordable units within market-rate developments;
- e. Create affordable housing without requiring public subsidies or tax increment financing.

2. AUTHORITY

This ordinance is adopted pursuant to:

- a. Minnesota Statutes § 462.358, subd. 1a, which authorizes municipalities to adopt ordinances for the purpose of increasing the supply of affordable housing using land use mechanisms;
- b. Minnesota Statutes § 462.358, subd. 11, which authorizes municipalities to enter into agreements requiring affordable housing with established pricing and long-term affordability controls; and
- c. Minnesota Statutes § 473.859, which requires municipal comprehensive plans to promote creation of affordable housing for low- and moderate-income individuals and families.

3. DEFINITIONS

The following terms shall have the meanings indicated:

AFFORDABLE. Housing is affordable when a household pays no more than 30% of gross household income for housing costs, including rent or mortgage payment, utilities, fees, and charges.

AFFORDABLE HOUSING UNIT. A dwelling unit that has income and rent restrictions pursuant to this ordinance to ensure affordability for eligible households.

AREA MEDIAN INCOME (AMI). The median household income as most recently determined by the U.S. Department of Housing and Urban Development (HUD) for the Minneapolis-St. Paul-Bloomington, Minnesota-Wisconsin Metropolitan Statistical Area, adjusted for household size and number of bedrooms.

DEVELOPMENT. A new residential or mixed-use development, including construction in phases or stages, for which city approvals are being or have been sought.

DWELLING UNIT. One or more rooms designed for residential use by a single household, containing cooking, living, sanitary, and sleeping facilities.

ELIGIBLE HOUSEHOLD. A household with annual income at or below 80% of AMI for rental units, or at or below 110% of AMI for ownership units.

MARKET-RATE UNIT. A residential dwelling unit not subject to affordability restrictions under this ordinance.

NATURALLY OCCURRING AFFORDABLE HOUSING (NOAH). Existing rental housing that is affordable to households at or below 60% of AMI without public subsidy, typically constructed between 1940 and 1990 and classified as Class B or C property.

SUBSTANTIAL REHABILITATION. Improvements to a property where the cost exceeds 20% of the property value (excluding land) after improvements.

WORKFORCE HOUSING. Housing affordable to households earning between 60% and 80% of AMI, typically needed by teachers, public safety personnel, healthcare workers, and other essential workers.

4. APPLICABILITY

4.1 Developments Subject to Requirements

This ordinance applies to the following development types:

- a. New multifamily residential developments creating 20 or more dwelling units;
- b. Mixed-use developments with a residential component of 20 or more dwelling units;
- c. Substantial rehabilitation or reconstruction of existing buildings containing 20 or more dwelling units;
- d. Conversion of non-residential buildings to residential use creating 20 or more dwelling units.

4.2 Calculation of Units

For phased developments, the affordable housing requirement shall be calculated based on the total number of units in all phases. Affordable units shall be provided proportionately across phases.

When calculating the number of affordable units required, any fraction of 0.5 or greater shall be rounded up to the nearest whole number; fractions less than 0.5 shall be rounded down.

5. AFFORDABLE HOUSING REQUIREMENT

5.1 Percentage Requirements

Developments subject to this ordinance shall provide affordable housing units according to the following standards:

Affordability Level	Income Target	Minimum % of Units
Very Low Income	50% AMI	5%
Low Income	60% AMI	7.5%
Workforce Housing	80% AMI	10%

Developers may choose any one of the three affordability options listed above.

For ownership housing (condominiums, townhomes/twin homes, duplexes, triplexes, rowhouses, and four-plexes), at least 10% of units shall be affordable to households at or below 110% of AMI.

5.2 NOAH Replacement Requirements

If a development demolishes or converts NOAH units, the new development must replace those units at a minimum rate of 20% of total units affordable at 60% AMI, in addition to meeting the standard inclusionary requirement. Replacement units shall be comparable in bedroom size to the demolished units.

6. INTEGRATION AND DESIGN STANDARDS

6.1 On-Site Location

Affordable housing units shall be located within the same development as market-rate units. Off-site construction of affordable units is not permitted under this ordinance.

6.2 Distribution and Integration

Affordable units shall be:

- a. Distributed throughout the development and not concentrated in any single building, floor, or section;
- b. Proportionately distributed across all unit types (studio, 1-bedroom, 2-bedroom, 3-bedroom, etc.);
- c. Indistinguishable from market-rate units in terms of exterior appearance and quality of construction.

6.3 Comparable Quality

Affordable units shall:

- a. Have the same design, materials, and construction quality as market-rate units;
- b. Have comparable square footage and room sizes to market-rate units of the same bedroom count;
- c. Have comparable furniture, fixtures and equipment to market-rate units;
- d. Have access to the same amenities, facilities, and services as market-rate units;
- e. Have proportional access to parking, including both surface and enclosed parking if available.

6.4 Family-Sized Units

Developments of 60 or more units shall include a minimum number of 3-bedroom or larger units. The following table establishes minimum requirements:

Total Development Units	Minimum 3+ Bedroom Units
60-99	5
100-150	8
150+	10% of total

Age-restricted developments (55+) shall include at least one 3-bedroom or larger unit per floor, for floors of the structure(s)/building(s) that are at least 40 percent leasable residential space.

7. AFFORDABILITY CONTROLS

7.1 Rent Limits

Maximum rent for affordable units, including utilities and all mandatory fees, shall not exceed 30% of the applicable AMI level adjusted for household size and bedroom count. Rent limits shall be based on HUD Fair Market Rents or Minnesota Housing income limits, whichever is more restrictive.

7.2 Income Qualification

Tenants of affordable units must be income-qualified at initial occupancy. Income verification shall follow HUD or Minnesota Housing guidelines.

A household whose income rises above the qualifying level may continue to occupy the unit provided household income does not exceed 140% of the applicable AMI. Upon vacancy, the unit must be re-rented to an income-qualified household.

7.3 Period of Affordability

Affordable units shall remain affordable for a minimum of 20 years from the date of initial certificate of occupancy. Affordability shall be secured through a recorded covenant or deed restriction approved by the City Attorney.

7.4 Non-Discrimination

Owners and managers shall not discriminate against prospective tenants on the basis of source of income, including Housing Choice Vouchers or other rental assistance programs.

8. REGULATORY INCENTIVES

To offset the costs of providing affordable housing without public subsidy, developments meeting the requirements of this ordinance are eligible for the following regulatory incentives:

8.1 Density Bonus

Developments providing affordable units at or below 60% AMI may receive a density bonus of up to 25% above the maximum density otherwise permitted, provided the increase does not negatively impact surrounding properties or conflict with comprehensive plan goals.

The density bonus shall not increase the number of required affordable units.

8.2 Lot Size and Width Reduction

Minimum lot size and lot width requirements may be reduced by up to 25% for developments meeting affordability requirements, subject to site plan approval and findings that public health, safety, and welfare are protected.

8.3 Lot Coverage Increase

Maximum lot coverage may be increased by up to 10% for developments meeting affordability requirements, subject to adequate stormwater management and site design review.

8.4 Expedited Review

Applications for developments providing affordable units shall receive priority review by city staff and may be placed ahead of other applications in the review queue.

8.5 Parking Flexibility

The City may consider parking reductions of up to 25% for developments meeting affordability requirements, provided adequate parking is demonstrated through a parking study and subject to conditions ensuring affordable unit residents have equitable access to parking at no additional charge.

9. AFFORDABLE HOUSING PLAN

9.1 Required Submission

All developments subject to this ordinance shall submit an Affordable Housing Plan as part of the final development plan application. The plan shall be approved by the City Council prior to issuance of building permits.

9.2 Plan Contents

The Affordable Housing Plan shall include:

- a. Total number of units and number of affordable units by AMI level;
- b. Unit mix showing bedroom counts for both market-rate and affordable units;
- c. Site plan and floor plans showing location and distribution of affordable units;
- d. Proposed rent levels for affordable units demonstrating compliance with affordability limits;
- e. Management plan describing marketing, tenant selection, income verification, and annual reporting procedures;
- f. Phasing plan showing proportional development of affordable and market-rate units (if applicable);
- g. Draft affordability covenant or deed restriction in form approved by the City Attorney.

10. AFFORDABLE HOUSING AGREEMENT

10.1 Required Agreement

Prior to issuance of building permits, the developer shall execute an Affordable Housing Performance Agreement with the City. The agreement shall incorporate the approved Affordable Housing Plan and set forth all commitments and obligations of both parties.

10.2 Recorded Covenant

The developer shall execute and record with the County a covenant or deed restriction, in form approved by the City Attorney, that runs with the land and ensures continued affordability of designated units for the required period. The covenant shall be recorded prior to issuance of certificates of occupancy.

10.3 Right of First Refusal

The agreement may include a right of first refusal providing the City or designated affordable housing organization with the option to purchase the property before it is offered on the open market, to preserve long-term affordability.

11. MONITORING AND COMPLIANCE

11.1 Annual Reporting

Property owners shall submit an annual report to the City Administrator or designee by February 1 of each year, containing:

- a. List of all affordable units;
- b. Current rent for each affordable unit;
- c. Income verification documentation for new tenants;
- d. Vacancy information;
- e. Certification of compliance with all requirements of this ordinance and the Affordable Housing Agreement.

11.2 Monitoring and Inspection

The City reserves the right to inspect records and properties to verify compliance with affordability requirements. Inspections shall be conducted upon reasonable notice and during normal business hours.

11.3 Phasing Compliance

For phased developments, certificates of occupancy for market-rate units shall not be issued until a proportionate number of affordable units in that phase have received certificates of occupancy and are available for occupancy.

12. ALTERNATIVE COMPLIANCE

The City Council may approve alternative methods of compliance that provide equal or greater public benefit than strict application of this ordinance. Any alternative proposal must:

- a. Provide at least as many affordable units at the same or lower income levels;
- b. Maintain or exceed the quality and design standards required by this ordinance;
- c. Demonstrate compelling circumstances justifying the alternative approach;
- d. Be recommended for approval by city staff with detailed findings supporting the public benefit.

13. ENFORCEMENT

13.1 Violations

Failure to comply with the requirements of this ordinance or the Affordable Housing Agreement constitutes a violation subject to enforcement action. Violations may result in withholding of certificates of occupancy, revocation of permits, civil penalties, or other remedies available under law.

13.2 Remedies

The City may pursue any remedy available under law or equity to enforce this ordinance, including specific performance, injunctive relief, monetary damages, or civil penalties. Remedies are cumulative and not exclusive.

13.3 Affordable Housing Trust Fund

Civil penalties and damages collected under this ordinance shall be deposited in the City's Affordable Housing Trust Fund and used exclusively for affordable housing programs and initiatives.

14. ADMINISTRATION

14.1 Guidelines and Procedures

The City Administrator may adopt administrative guidelines and procedures to implement this ordinance, subject to approval by the City Council. Guidelines shall be published and made available to developers and the public.

14.2 Annual Evaluation

The City Administrator or designee shall provide an annual report to the City Council by October 1 of each year evaluating the implementation and effectiveness of this ordinance, including the number of affordable units created, compliance rates, and recommendations for amendments.

14.3 Periodic Review

The City Council shall review this ordinance at least every five years to ensure it remains responsive to local housing needs, market conditions, and regional housing goals. Amendments may be adopted following public hearing as required by state law.

15. SEVERABILITY

If any section, subsection, paragraph, sentence, or clause of this ordinance is held to be unconstitutional or invalid, the remaining portions shall remain valid and in force. The City Council declares that it would have passed each provision independently.

16. EFFECTIVE DATE

This ordinance shall take effect upon publication as required by law. Applications submitted prior to the effective date are not subject to these requirements unless the applicant voluntarily elects to comply to receive available incentives.