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Regional

Report

Urban Homesteading Program

A Report to the Minnesota Legislature

January 2003

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The mission of the Metropolitan Council is to improve regional competitiveness in the global economy so that this is one of the best places to live, work, raise a family and do business.

The Metropolitan Council is the regional planning and operating organization for the seven-county Twin Cities area. The Council advocates Smart Growth to ensure vital communities and a competitive region. It runs the regional bus system, collects and treats wastewater, manages regional water resources, plans regional parks and administers funds that provide housing opportunities for low- and moderate-income individuals and families.

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Background

The Livable Communities Act (Minnesota Laws 1995, Chapter 255, Article 13) established the Urban Homesteading Program, a demonstration program to encourage neighborhood revitalization by allowing a subtraction from Minnesota taxable income. The Act requires several reports on the program that cover participation rates and costs, as well as information on neighborhood impacts, property values, resident incomes, rates of owner-occupancy, and other indicators of poverty and blight. This report provides information on the number of applicants for the program and the changes in neighborhood indicators between 1980 and 2000.

The Urban Homesteading Program

The Livable Communities Act provides incentives for cities and counties to invest in local economic revitalization and affordable housing. Section 2, the Urban Homesteading Program, provides income tax relief for persons who purchase and occupy a house within a designated urban revitalization and stabilization zone. The Metropolitan Council designated zones in Columbia Heights, Minneapolis and St. Paul. (A map of each zone is attached at the end of the report and a discussion of the zones begins on page 2.)

To qualify for the program, residents must have purchased a home and occupied it between September 1, 1995, and July 1, 1998. To continue to qualify for the income-tax benefits, they must reapply for eligibility on or before December 31 of each year that they participate in the program.

The Airport Impact Relief Program

In 1996, the Livable Communities Act was amended by Minnesota Laws 1996, Chapter 464, Article 4, to establish another urban revitalization and stabilization zone around the Minneapolis-St. Paul Airport (MSP) for airport noise relief. The zone included all parcels within an area that extended one mile out from the boundary of the 1996 Ldn65 noise contour around the airport.

The zone covers parts of south Minneapolis, Richfield, Bloomington, St. Paul, Eagan, Mendota Heights, all of Mendota, and very small parts of Lilydale, Sunfish Lake and Inver Grove Heights. A map of the areas is attached at the end of this report. The Airport Noise Impact Relief program provides an income-tax deduction for those buying and occupying homes in the airport zone between June 1, 1996, and July 1, 1997. As in the Urban Homesteading Program, applicants were required to submit an annual application of eligibility for up to five years.

Tax Benefits

Individuals participating in either of the programs receive an exemption from Minnesota taxable income each tax year for up to a maximum of five years as long as they remain eligible. The maximum exemption amount is \$15,000 for married individuals filing joint tax returns, \$10,000 for unmarried individuals, and \$12,500 for unmarried individuals qualifying as the head of a household. The maximum exemption amount would be reduced two percent of the maximum for each \$1,000 of adjusted gross income above the income thresholds established by the program. The thresholds are \$60,000 for married individuals filing joint tax returns, \$40,000 for unmarried individuals, and \$50,000 for unmarried heads of household.

Marketing the Urban Homesteading Program

The 1995 law required the Metropolitan Council to market and promote the Urban Homesteading Program. Promotional activities were targeted to the selected areas of participation in Minneapolis, St. Paul and Columbia Heights. The activities included production and distribution of brochures explaining the Home Buyers Tax Break Program and loan information, an advertising campaign in community

newspapers and realtor newsletters, press releases, presentations by Council staff to local groups interested in the program, meetings by city staff to inform buyers in the designated areas, program notations on MLS listings, information packets for realtors' sales meetings and realtor training activities for CEU credit.

In addition to the marketing activities initiated by the Council, some cities participating in the program did their own marketing.

Participation in the Program

The latest information on the number of participants in the programs is based on data for income taxes due in 2001. The number of participants in the Urban Homesteading Program was fairly small. In the Columbia Heights zone there were 22 original participants and 16 requested the tax exemption for tax year 2001. In the Minneapolis zone there were 15 original participants; 8 requested the 2001 exemption. In the St. Paul zone, the number of original participants was 6 and 6 requested the 2001 exemption.

There were many more participants in the Airport Impact Relief Program since it covered a much larger area. In the Dakota County cities of Eagan, Lilydale, Mendota and Mendota Heights, and in St. Paul, the number of people originally applying for the program is not available. However, 75 remained eligible for the 1998 exemption in Dakota County and 2 in Ramsey County. In the Hennepin County cities of Bloomington, Minneapolis and Richfield, there were 1,352 parcels of land that originally qualified for the program. In 2001, 729 homes in these areas were still eligible for the tax benefits.

Estimated Cost of the Program

The program will end in 2003 (2002 income taxes). The Minnesota Department of Revenue has estimated an annual cost to the state of the program. The most recent estimate indicates an impact to the State general fund of approximately \$400,000 for fiscal years 2002 and 2003. For fiscal year 1999 the estimated cost to the State general fund was \$2,000,000.

The Urban Homesteading Program Project Areas

Designating the Areas

The Metropolitan Council was required to determine the program participation zones based on specific criteria within the law. The zones could contain no more than 1,000 single-family homes in total. The areas chosen would be in transition toward blight and poverty, with declining residential property values, declining resident incomes, and declining rates of owner-occupancy.

Council staff used 1980 and 1990 Census data to analyze census tracts in the seven-county area. The first step was to identify tracts with a median value of occupied housing between \$66,000 and \$89,000 in 1990 (the latter figure was the regional median). Staff then checked for a decline in the number of owned units, an increase in the number of people below the federal poverty level and a decline in household income from 1980 to 1990. Four cities—Bloomington, Columbia Heights, Minneapolis and St. Paul—had tracts that met the median value standard and had significant declines in two of the criteria. Because Bloomington had access to other housing funding at the time, the Council chose Columbia Heights, Minneapolis and St. Paul for the project.

Within the selected tracts, smaller zones were chosen to limit the project to the required 1,000 single-family homes. After meeting with each city, the Council approved these areas: part of the McKinley and Folwell neighborhoods in Minneapolis, an area in the southeastern area of Columbia Heights, and an area in the West Side of St. Paul. Maps showing the areas are attached at the end of the report.

Demographic Changes in the Zones, 1980-2000

The following tables summarize Census information on the original zones enacted in the 1995 Livable Communities legislation. In each of the neighborhoods, the number of housing units remained relatively constant. The lone exception was Census tract 9 (tract 1009 in 2000) in Minneapolis, where units increased 46% in the 1990s. This is due to an expansion of the tract boundaries. (Note that the number of vacant houses as well as other statistics also increased).

The percentage of units that were owner-occupied in each of the zones remained stable. The percentage of owner-occupied below poverty increased in all zones between 1980 and 1990, but stabilized in Tract 515.02 (Columbia Heights) and reversed in Tract 372 (Saint Paul). The median value of owner-occupied housing, although below the metropolitan area median, increased more—37% in Tract 515.02, 31% in Tract 9/1009 and 44% in Tract 372. Similarly, the increase in median household income increased more than the metropolitan median.

Columbia Heights Tract 515.02

	1980	1990	2000
Housing units	1,310	1,291	1,314
Population	3,267	2,877	2,867
Vacant houses	16 (1.2%)	24 (1.9%)	19 (1.4%)
Owner-occupied (% of occupied)	868 (67%)	846 (67%)	887 (68%)
Owner-occupied below poverty	1.0%	2.1%	2.0%
Median value owner-occupied	\$58,100	\$79,800	\$109,800
Median household income	\$21,218	\$27,188	\$40,900

Minneapolis Tract 9/1009

	1980	1990	2000
Housing units	1,265	1,263	1,841
Population	3,201	3,222	5,603
Vacant houses	33 (2.6%)	72 (5.7%)	135 (7.3%)
Owner-occupied (% of occupied)	973 (77%)	892 (71%)	1,253 (68%)
Owner-occupied below poverty	6.3%	6.8%	8.3%
Median value owner-occupied	\$44,000	\$54,000	\$71,500
Median household income	\$17,272	\$26,885	\$35,316

Saint Paul Tract 372

	1980	1990	2000
Housing units	2,141	2,219	2,134
Population	5,397	5,541	6,176
Vacant houses	115 (5.4%)	121 (5.5%)	50 (2.3%)
Owner-occupied (% of occupied)	1,236 (61%)	1,230 (59%)	1,256 (59%)
Owner-occupied below poverty	4.6%	7.2%	4.5%
Median value owner-occupied	\$43,300	\$58,800	\$84,600
Median household income	\$15,119	\$22,791	\$42,046

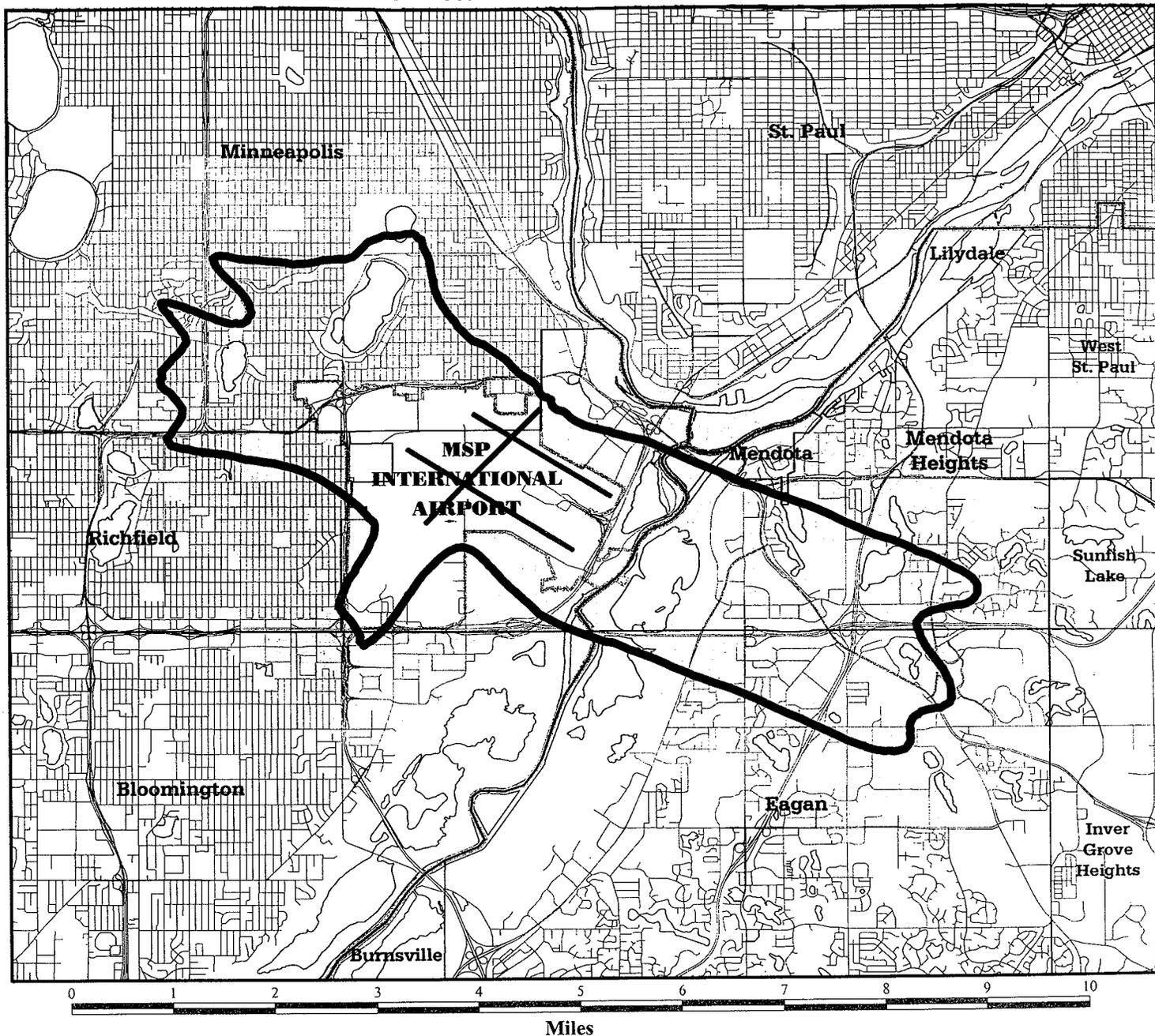
Characteristics of the MSP Airport Urban Revitalization and Stabilization Zone

Forty-one Census 2000 tracts with owner-occupied houses were identified in the zone. Demographic characteristics vary considerably among the tracts, but the following table shows the median value among all the tracts for each characteristic.

**Tracts (Census 2000) in the MSP Airport
Urban Revitalization and Stabilization Zone**

Median homeownership rate	76%
Median owner-occupied household income	\$53,548
Median value of owner-occupied housing	\$126,600
Median poverty rate	2.4%

MSP Urban Revitalization and Stabilization Zone



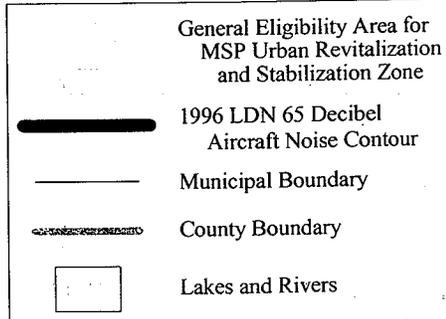
MSP Urban Revitalization and Stabilization Zone

Minnesota Laws 1996, Chapter 464, Article 4, Sections 1 & 2, provide for airport noise relief through income tax exclusion. Home owners may qualify for an annual five-year exclusion of state income tax beginning in 1998, if they purchase and occupy a single-family home in the designated urban revitalization and stabilization zone around MSP International Airport after June 1, 1996.

ZONE DEFINITION: This map shows the "generalized" urban revitalization and stabilization zone which is defined under the law as parcels that are in whole or in part located within the 1996 LDN 65 aircraft noise contour for MSP, or within one mile of the boundaries of the contour. The zone is permanent, and is not periodically revised.

NOTE: The noise contour cuts through many parcels, often at an angle to the predominant grid pattern of streets/properties, making it difficult to select appropriate boundaries. To address this problem and variability in noise contour placement, a "boundary block" concept has been used to refine the urban revitalization/stabilization zone line. The concept indicates that all blocks/parcels touched by the LDN 65 noise contour are included within the zone. This approach is currently in use by the MSP communities, the MAC and FAA in the FAR Part-150 program. The detailed urban revitalization and stabilization zone is depicted at the boundary block level in separate maps for each individual affected community.

NOISE CONTOUR DEFINITION: The LDN 65 contour is based on the FAA approved 1996 FAR Part-150 noise contour for MSP, and does not include noise redistribution for aircraft departures off runway 22. The contour was produced by HNTB, using the FAA's Integrated Noise model, for the Metropolitan Airport Commission's FAR Part-150 noise program; additional documentation is defined in the runway 4/22 EIS.

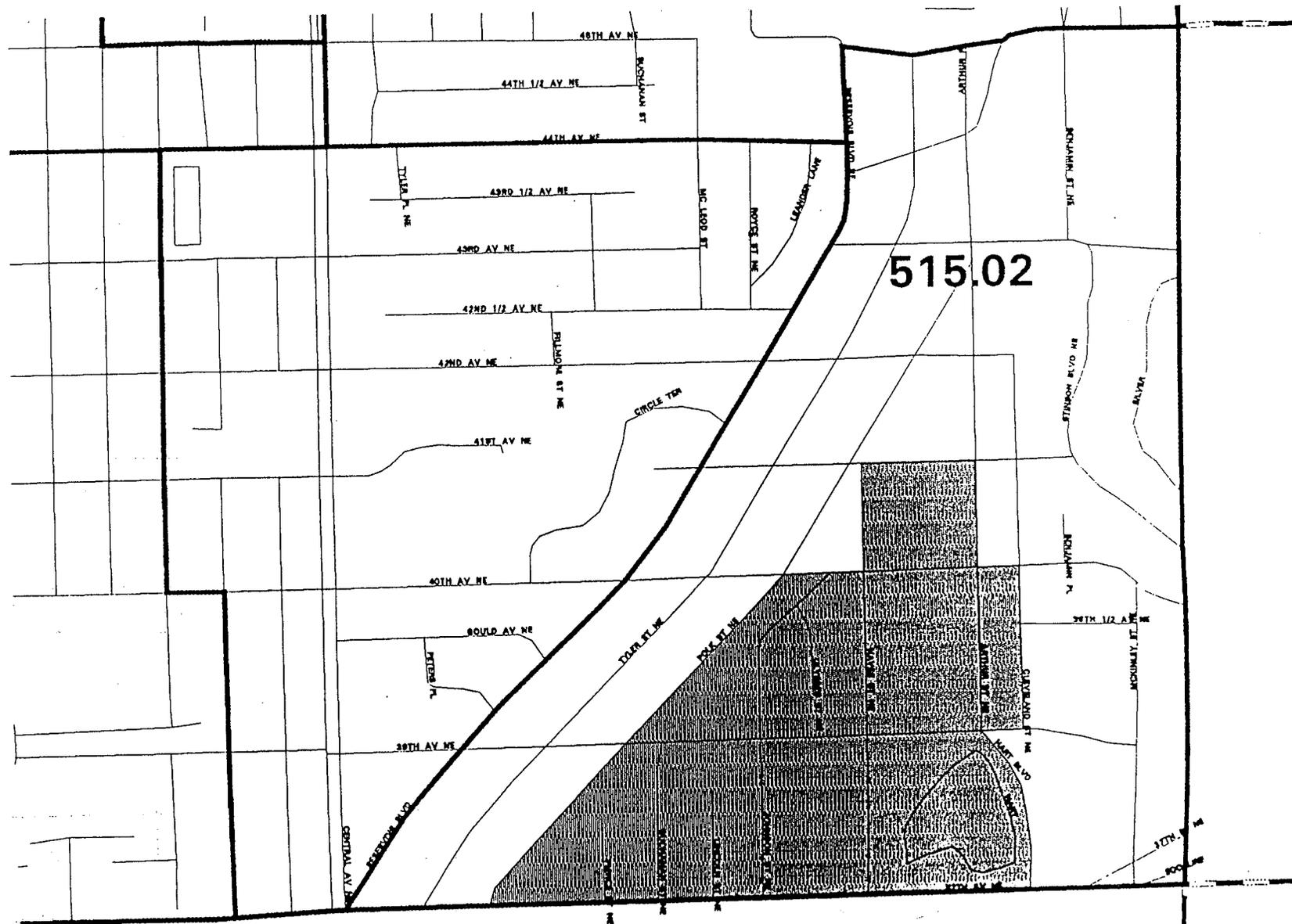


This noise contour information was provided by the Metropolitan Airports Commission (MAC) and is assumed to be the best available information at the time of this program

Urban Revitalization and Stabilization Demonstration Zones in Columbia Heights Census Tract 515.02

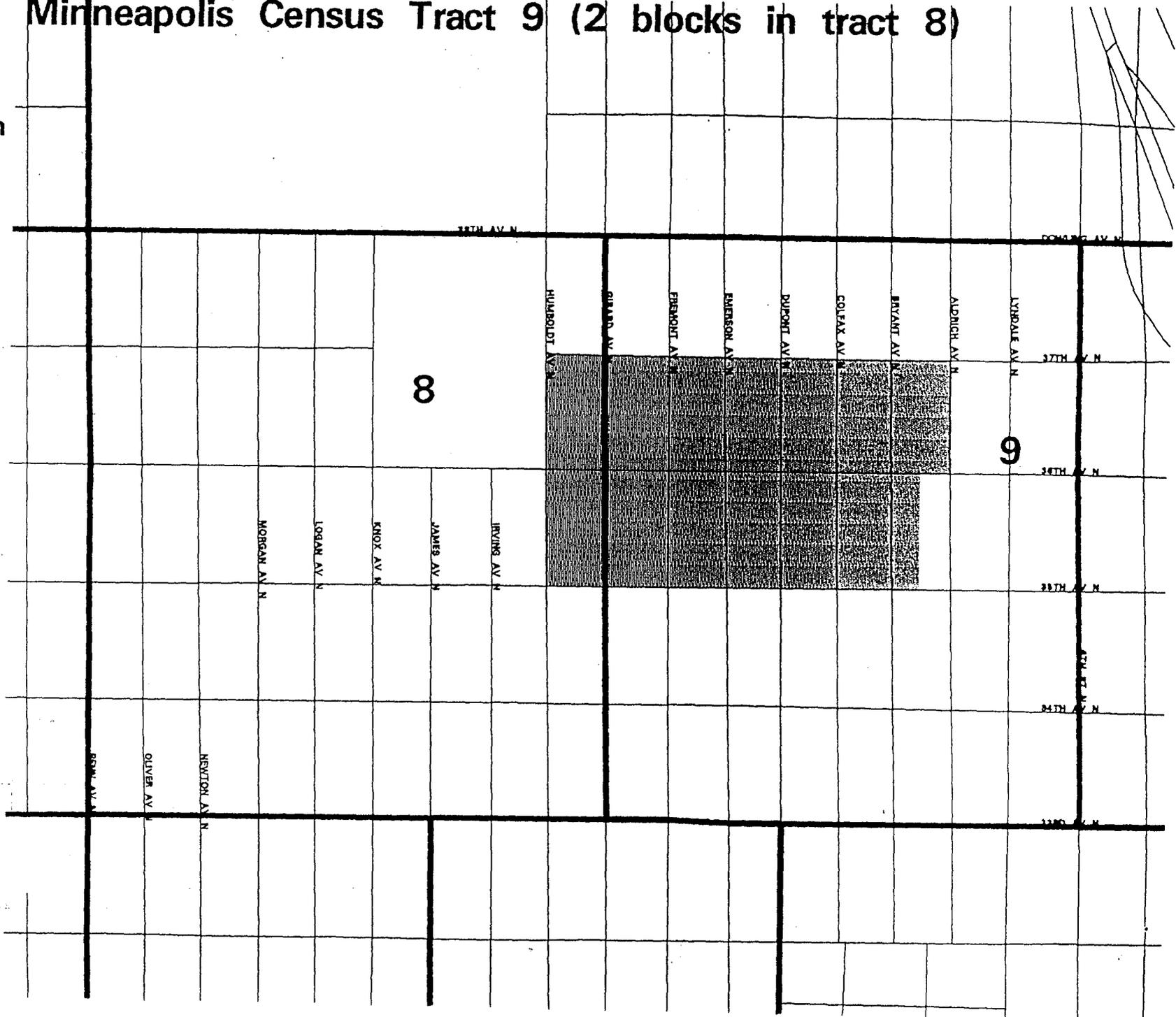


Demonstration
Site



Urban Revitalization and Stabilization Demonstration Zones in Minneapolis Census Tract 9 (2 blocks in tract 8)

 Demonstration Site



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