



# FAMILY HOUSING FUND

## FREQUENTLY ASKED QUESTIONS

### *Minneapolis 4d Affordable Housing Incentive Program for Rental Housing Owners*

The [City of Minneapolis 4d Affordable Housing Incentive Program](#) is accepting applications through February 12, 2019. The program was created in 2018 to help preserve naturally occurring affordable housing (NOAH). Owners of rental housing who enroll apartments in the program receive a 40% reduction in property taxes in exchange for agreeing to a 10-year contract that stabilizes rents for the housing units enrolled in the program. Detailed information about the program and a link to the application is available on [the City of Minneapolis website](#).

FHFund has compiled this list of FAQs based on real questions from interested potential participants.<sup>1</sup> The questions and answers below are aimed at property owners in Minneapolis, and may also interest policymakers exploring new 4d affordability incentive programs in other jurisdictions.

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- [Can I see an example of the contract I will sign with the City of Minneapolis if I sign up for the program?](#)
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<sup>1</sup> While the information in this document is intended to be as accurate as possible, the City of Minneapolis and the State of Minnesota are ultimately responsible for interpreting program rules and relevant legislation.

## What is 4d?

The state of Minnesota has several different classification types for rental property; class 4d is “low-income rental property” under [section 273.13, subdivision 25](#), of state law. (For a basic introduction to property taxes, see the [MN Department of Revenue fact sheet](#) “Understanding Property Taxes”). Class 4d property is taxed at a rate of 0.75 for the first tier of valuation, or 40% less than other kinds of rental property.

Properties qualify for 4d in a variety of ways, including if “the units are subject to rent and income restrictions under the terms of financial assistance provided to the rental housing property” by a local, state, or federal government, and assisted units are “occupied by residents whose household income at the time of initial occupancy does not exceed 60 percent of the greater of area or state median income, adjusted for family size.”

The City of Minneapolis 4d Affordable Housing Incentive Program offers financial assistance to expand the eligible pool of 4d property to private owners of apartment buildings if they agree to keep 20% or more of their rental units affordable to households earning no more than 60% AMI (\$45,300 for a household of two). For example, one-bedroom rents could not exceed \$1,062 in 2019 (see page 5 of the [City’s program guide](#)).

## What is the actual financial benefit to me if I sign up for the program?

A 2015 study by the Housing Justice Center suggested that 4d status would directly result in a property tax reduction of approximately \$40 per unit, per month, for a typical building in Minneapolis. This number varies depending on the value of the property, the tax levy, and the number of units enrolled in the program. As tax bills tend to go up each year, the value of the 40% property tax reduction will likely continue to increase in dollar terms. Additionally, the “[second tier of valuation](#)” for properties valued at more than \$150,000/unit is taxed at 0.25, representing an 80% reduction of taxes on this additional value (see example (b) below).

Examples include:

- a) **a 30-unit building with a \$50,000 annual property tax bill** in 2019 would save \$55/month for each unit in the 4d program. The owner would save between \$4,000-\$20,000 annually depending on the number of participating units.

$$\text{\$50,000 taxes} / 30 \text{ units} = \text{\$1,667 annual tax per non-4d unit}$$

$$\text{\$1,667} * 0.6 = \text{\$1000 annual tax per 4d unit}$$

$$\text{\$667 annual savings per unit}$$

- b) **a duplex with an assessed value of \$425,000 and a \$7,800 annual property tax bill** in 2019 would benefit from a 52% reduction in property taxes, saving \$168/month for each unit in the 4d program. The larger percentage reduction applies because the state statute provides an [80%](#)

[tax rate reduction on the remaining value above the “first tier” of valuation, currently \\$150,000/unit](#). The owner would save over \$2,000 annually for each unit enrolled.

$$\text{\$7,800 taxes} / 2 \text{ units} = \text{\$3,900 annual tax per non-4d unit}$$

$$\text{value per unit over 1st tier valuation} = \text{\$212,500} - \text{\$150,00} = \text{\$62,500} \text{ (=29\% of total valuation is in 2nd tier)}$$

$$\begin{aligned} \text{1st tier property tax discount} &= 3900 * 71\% * 0.6 = \text{\$1,661} \\ \text{+ 2nd tier property tax discount} &= 3900 * 29\% * 0.2 = \text{\$226} \end{aligned}$$

$$\text{\$1,887 annual tax per 4d unit}$$

$$\text{\$2,013 annual savings per unit}$$

Additional financial benefits include a grant of up to \$1,000 per building, the City’s payment of the \$10/unit first-year application fee, a free or low-cost energy efficiency and healthy homes assessment, priority for solar project funding of up to \$75,000, and up to 90% of the cost of qualified energy, health, and safety improvements—which could then in turn further lower operating costs for the building.

### What if my property is homesteaded?

Homesteaded small multifamily properties are eligible for 4d; however, the overall percentage reduction in property taxes will be less because these properties are already receiving a lower tax rate. For more details about the tax rate for homestead properties, see page 5 of [this property tax classification resource from the Minnesota Department of Revenue](#).

### How do I find tenants within the targeted income bracket, and what are the required affirmative fair housing marketing practices?

Minneapolis faces a shortage of rental homes affordable to people earning less than 60% AMI (e.g., \$39,660 for an individual, \$45,300 for a household of two, \$50,940 for a three-person household, \$56,500 for a household of four), and many qualified tenants are looking for a place they can afford to live. Advertising income limitations when marketing vacant units may help with an efficient tenant selection process.

Additionally, owners can comply with the program requirement to affirmatively market their units (mentioned on page 5 of the [program declaration](#)) by advertising all vacancies on [HousingLink](#). Renters who meet income qualification standards for the program often use [www.housinglink.org](http://www.housinglink.org) to search for housing, making the website a valuable marketing tool for Minneapolis 4d program participants.

### How will I qualify new tenants' incomes?

Owners will submit an [Annual Compliance form](#) to the City of Minneapolis, which asks the owner to report the income of new tenants at the time of move-in only. Owners must verify tenant incomes using the Adjusted Gross Income reported on the tenant's tax returns.

Existing tenants in units with program-compliant rents do not need to have their incomes qualified.

### What if my rents are already below the 60% AMI maximum?

Rent increases for tenants in 4d units are limited to 6% or less annually, unless the unit is turning over to a new tenant or the owner provides evidence that a larger rent increase is needed to address deferred maintenance or unanticipated operating cost increases.

### What if I want to withdraw from the program?

For owners who want to reduce their level of participation in the program, the City offers an option after five years to approve a reduction in the number of units per building participating in the program. However, at least 20% of the building must maintain participation in the program in order to meet the conditions of the program.

The affordability requirements are a contractual requirement of the participation agreement with the City of Minneapolis and of the 10-year affordability declaration filed with Hennepin County. The City will enforce these requirements and will work to bring properties back into compliance.

### What if I decide to sell my property in less than 10 years?

The declaration for the 4d program commitment would stay with the property under any new ownership and would automatically transfer to the new owner.

### How will this affect my financing?

A declaration filed on a property is important to discuss with your bank or mortgage lender. The 4d program is an innovative approach that may not yet be familiar to commercial real estate lenders and investors. Lenders will weigh the benefit of reduced property taxes in the operating budget against potentially limited future rental income.

### Does the Section 8 non-discrimination provision apply to me if I sign up for this program?

Yes, the Section 8 non-discrimination provision is a contractual requirement of the program and is shown on the declaration that will be filed with Hennepin County. This contractual requirement applies to properties in the Minneapolis 4d program in addition to Title 7, Chapter 139 of the Minneapolis Code of Ordinances, which prohibits discrimination in all rental housing on the basis of tenant-based subsidies. (As of early 2019, this ordinance is the subject of ongoing litigation).

Making a home available to a Housing Choice (Section 8) Voucher holder is very helpful to families who often face limited choices in an overheated housing market. For more information about participating in the Housing Choice Voucher (Section 8) program as a landlord, see the [Minneapolis Public Housing Authority](#) (MPHA) website. MPHA operates a Minneapolis Property Owner Incentive Fund with benefits for new and existing property owners who work with the Housing Choice Voucher program.

#### [How does the inclusionary zoning policy work with this program?](#)

In December 2018, the City adopted a new policy requiring projects that receive a substantial increase in allowable residential development capacity, density bonus, or other application or combination of applications to the city to make a percentage of units available to households at targeted income levels. Any rental development that includes at least 20% of units affordable to and occupied by households with an income at or below 60% AMI would be eligible to apply for 4d tax status. The type of affordability commitment and the project's financing will determine whether a project applies for 4d through the Minneapolis 4d program or through the State of Minnesota. Property owners with new development projects who are planning to include at least 20% of units affordable at 60% AMI should contact the City of Minneapolis when their property is nearing construction completion.

#### [Can I see an example of the contract I will sign with the City of Minneapolis if I sign up for the program?](#)

Yes! The Minneapolis 4d Participation Agreement and Declaration of Restrictive Covenants is available for download [here](#) on the City of Minneapolis website. If your application to participate in the program is accepted, you will be asked to sign this document. The declaration will be filed with the Hennepin County recorder's office, will take effect on the date of signing, and will be valid for 10 years after the signing date.

#### [What if the City decides to discontinue the program?](#)

The State of Minnesota grants 4d tax status to a property for the 10-year term of the deed restriction. After that 10-year period, the City of Minneapolis will make a new determination about whether to offer re-enrollment in the program. State law will continue to govern the property tax classification system as a whole.