

City of Minneapolis 4d Affordable Housing Incentive Program

Healthy, stable and affordable housing is a lynchpin for the well-being, prosperity and security of Minneapolis residents. Due to recent housing, economic, and demographic trends, Minneapolis is experiencing an affordable housing crisis. Already burdened low and moderate income tenants are increasingly paying more than 30% of their income on rent and utilities. At the same time, many rental property owners are faced with increased operating and maintenance costs as well as market opportunities to increase rents. Rental property owners have approached the City to explore partnership opportunities to ensure housing stays affordable. In response, the City offers a robust package of incentives for rental property owners to reduce property tax liability, improve energy efficiency and, if present, address conditions of aging buildings. The goal is to preserve affordability, reduce energy use and enhance healthy homes to support tenants and strengthen the bottom line for property owners.

What are the benefits to participants?

Qualified building owners that agree to keep a minimum of 20% of units per building affordable to households making 60% of Area Median Income (AMI), for ten years, will receive: 10 year eligibility for 4d property tax rate, which provides a 40% tax rate reduction on qualifying units.*

Additional benefits include:

- Payment of first year application fee to the State of Minnesota for certification of the 4d property tax classification (\$10/unit)
- Grant to each 4d property, in the amount of \$100 per affordable unit, capped at \$1,000 per property
- Free energy efficiency and healthy homes assessments available to buildings with 5 or more units. Free or low cost energy assessments are available to 2-4 unit properties.
- City subsidy and utility rebates offered for the cost of energy efficiency and healthy homes improvement identified in the free assessment
- 4d properties qualify for solar energy incentives
- Reduced renter turnover
- Lower maintenance and operating costs, if owners take advantage of opportunities to make energy efficiency improvements to properties

*Minnesota Statute 273.128 provides that qualifying low-income rental properties, including those enrolled in the Minneapolis 4d incentive program, are eligible for 4d tax classification. According to state statute, the first tier of valuation (\$139,000/unit in 2018) on 4d rental properties is taxed at a rate 40% less than 4a and 4b rental property. The actual reduction in property taxes may be slightly higher or lower than 40%.

Who is eligible?

Owners of market-rate multifamily properties that meet the following criteria:

- At least 20% of the rental units in a building are occupied by and affordable to households whose family income is at or below 60% of the Area Median Income.
- The building or tax parcel must have at least 2 units.
- Income qualification is determined upon initial occupancy. Thereafter, increased incomes of tenants in affordable units will not violate the program requirements.
- Existing tenants in units that have program compliant rents do not need to be income qualified.
- Buildings can include units with owner occupants, but only rental units are eligible for 4d tax status.
- Tier 1 or 2 rental license with no rental housing license revocations or outstanding housing orders.

The City will receive and review applications on an annual basis. The City expects to accept applications November through early February. Properties will be selected based on City goals of preserving housing affordability in neighborhoods throughout the City, subject to the availability of City grant funds. Each property enrolled in 4d will receive a grant in the amount of \$100 per unit, capped at \$1000 per building.

Note: The City reserves the right to deny applications for the 4d Incentive Program if the owner or property manager applying owns or manages other properties with Tier 3 rental licenses, or if other properties have rental housing license revocations or outstanding housing orders.

Process and program requirements:

Step 1 (required):

- Property Owners will submit a 4d program application and rent roll, and sign a Participation Agreement with the City. The Participation Agreement includes a commitment to accept tenant based assistance and affirmative fair marketing, and prohibits involuntary displacement of existing tenants.
- The City will draft and record a declaration against the property that limits the rents and incomes on the qualified units for 10 years (a recorded document is required for 4d tax classification status). The declaration also limits rent increases for tenants in affordable units 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.

- City staff must approve an alternative schedule for rent increases.
- The City will provide a grant to each 4d property, in the amount of \$100 per affordable unit, capped at \$1,000 per property. This funding is intended to help property owners cover the cost of 4d administrative and reporting requirements associated with the program, as well as to help owners make health, safety and energy efficiency improvements to properties.
- Property Owners will select the percentage of their building to restrict, with a minimum of 20%. If they select more than 20%, after 5 years and upon request, the City will approve a reduction of the percentage of restricted units to the minimum level of 20% of the units per building.
- Property owners will sign a 4d application once declaration is filed.
- The City will submit a signed 4d application, application fee and declaration to Minnesota Housing on behalf of the property owner for their first year only. Owners are responsible for submitting annual applications to Minnesota Housing to renew 4d tax status. See “Annual Owner Compliance” for additional information.

Step 2 (encouraged):

- Owners of 5+ unit buildings can sign up for the [Multi-Family Building Efficiency Program](#) through Xcel Energy and CenterPoint Energy, and complete a free energy assessment, performed by Energy Insight Inc., to receive an Energy Report of recommended improvements. Owners of 2-4 unit properties can sign up to receive a free or low cost energy assessment from the [Home Energy Squad](#).

Benefit to owner: A free energy assessment, including free direct install of low-cost improvements such as screw-in LED lights and faucet aerators, and qualification to receive rebates for energy efficiency project expenditures if improvements result in at least 15% energy savings.

Step 3 (encouraged):

- Following a free energy assessment, meet with the City and Center for Energy and Environment (CEE) to discuss energy efficiency improvements and available rebate packages. Property owner can choose from a menu of energy efficiency/weatherization/healthy homes improvements and qualify for City and/or utility company subsidies and rebates that can cover between 25% - 90% of costs depending on building eligibility.
- Meet with City staff to discuss Solar Energy incentives. For qualified properties, the City will provide an incentive of \$0.25 per estimated annual kwh production for the 1st year of production, up to \$75,000.

Benefit to owner: Receive public recognition for your partnership with the city and receive financial assistance to help cover the cost of energy efficiency upgrades and solar energy investments.

Example of a Minneapolis 4d Affordable Housing Incentive project:

Building Example:
\$4,000,000 Property
50 Unit building
26% Low Income qualified units
\$74,969 in total taxes
\$35,000 in energy efficiency upgrades

Package of Incentives:
\$7,796 annual tax savings through enrollment in the 4d Program
\$1,000 grant from the City of Minneapolis
\$8,750 in utility rebates
up to \$26,250 in green initiatives cost share funds

Opportunity for solar energy installations, with ongoing City incentives at \$0.25 per annual kwh production

Modifications to declarations

- The declaration for the 4d program commitments runs with the property. Anyone buying and selling 4d property should contact Dean Porter-Nelson dean.porter-nelson@minneapolismn.gov to complete an Assignment, Assumption and Consent form transferring the declaration to the new owner.
- Any other changes to the declaration, such as revisions to the Exhibit B document specifying which units in the building are restricted, should contact [Dean Porter-Nelson](#).

What does annual compliance involve?

To continue to receive 4d status Property Owners are required to submit:

- an annual 4d application to Minnesota Housing
- an annual report to the City

2019 Rent and Income Restrictions, Minneapolis 4d Affordable Housing Incentive Program

*Rent and income limits based on 60% of the Twin Cities Area Median Income (AMI).

60% AMI Maximum Rent Limits, 2019 Program

Studio/Efficiency	\$991
1 Bedroom	\$1,062
2 Bedrooms	\$1,273
3 Bedrooms	\$1,471
4 Bedrooms	\$1,641
5 Bedrooms	\$1,811

60% AMI Maximum Income Limits, 2019 Program

1 person	\$39,660
2 people	\$45,300
3 people	\$50,940
4 people	\$56,580
5 people	\$61,140
6 people	\$65,640
7 people	\$70,200
8 people	\$74,700

Note: Building owners do not need to verify incomes of existing tenants. If units turn over and new tenants move in, owners must verify tenant incomes and report them to the City on an annual basis.

Notes on Area Median Income and annual updates to rent and income restrictions

- The City of Minneapolis will publish an annual rent and income schedule, based on the regional 60% AMI standard, that owners can reference to stay in compliance with the program over the 10 year commitment
- Rent and income restrictions will be updated annually based on AMI levels set by HUD. For more information on Area Median Income and rent limits, please visit the [Metropolitan Council website](#).

Questions?

For questions or more information about the 4d Affordable Housing Incentive Program contact Dean Porter-Nelson at dean.porter-nelson@minneapolismn.gov.