City of Minneapolis 4d Affordable Housing Incentive Program

Healthy, stable and affordable housing is a linchpin 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 primary goal of the program is to preserve affordability, reduce energy use and enhance healthy homes to support tenants and strengthen the bottom line for property owners. A secondary goal is to support market rate new construction development projects, including those that exceed the City's minimum affordability requirements under the inclusionary zoning ordinance and unified housing policy.

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 50 or 60% of Area Median Income (AMI), as shown below, for ten years, will receive: 10 years of eligibility for the 4d(l) uniform reduced property tax class rate which is currently 0.25% on qualifying rental units.*

Additional benefits include:

- Payment of first year application fee to the State of Minnesota for certification of the 4d property tax classification)
- Grant to each 4d property, in the amount of $100 per affordable unit, capped at $1,000 per property.
- Up to $50,000 in energy efficiency funding through the Green Cost Share Program

    - Free energy efficiency assessments
    - Project and application support through the Center for Energy and Environment and Frontier Energy.
    - Utility energy efficiency rebates.
- Solar grants through the Green Cost Share Program.
- Reduced renter turnover
- Lower maintenance and operating costs, if owners take advantage of opportunities to make energy efficiency improvements to properties

*Minnesota Statutes 273.13, subdivision 25(~~f~~e)(1)~~)~~ and 273.128 provide that qualifying low- income rental properties, including those enrolled in the Minneapolis 4d incentive program, are eligible for a lower tax class rate.

The 2023 MN Legislature both reduced the tax rate applicable to 4(d) properties and adopted new requirements for 4(d) properties in order to receive the reduced tax rate:

Effective as of the 2024 assessment year, pursuant to Minnesota Statutes 273.128, subdivision (1)(b) the owner of a property certified as class 4d~~(~~(~~i~~1) ~~under Minnesota Statutes 273.128 subdivision 1(b)~~ must:

1. Use property tax savings resulting from 4d(~~i~~1) status for one or more of the following eligible uses:-
    - Property maintenance
    - Property security
    - Improvements to the property
    - Rent stabilization or
    - Increases to the property's reserve account; and

~~2.~~ To maintain 4d(~~i~~1) classification, a property owner must annually reapply and certify to the Minnesota Housing Finance Agency that the property tax savings were used for one or more of the eligible uses listed in 1 above.

- ~~**Who is eligible?**~~**Eligibility requirements**

  For new enrollments in 2027 or later, qualified buildings are:

    - **New construction projects.** New construction projects are defined as properties located anywhere in the city that are less than 25 years old at the time of application. Such projects may enroll units of any size.
    - **Older Projects**. Older projects are defined as buildings 25 years or older located within an Opportunity Area at the time of application, as designated on the Community Choice Demonstration (CCD) map and such projects may only enroll units with two bedrooms or more.
    - **Building conversions.** Rental units created through conversions of non-residential buildings may participate in the program at 60% AMI, regardless of unit size or~~,~~ location.

Unit Size	AMI Level Required
0BR	50%AMI
I BR	50%AMI
2BR units and larger	60%AMI

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 50-60% of the Area Median Income, as shown in the table above.

- Buildings can include units with owner occupants, but only rental units are eligible for 4d tax status.
- Single family rental homes can be enrolled in the 4d program. In order to support future affordable homeownership opportunities, the City will release a 4d program declaration of restrictive covenants only if the property is sold to a current tenant, or another buyer with an income at or below 80% of Area Median Income (AMI), and in either case the buyer signs an affidavit that says they will occupy the home as their primary residence.
- Tier 1 or 2 rental license with no rental housing license revocations or outstanding housing orders.
- Note regarding tenant incomes
    - Existing tenants do not need to be income qualified
        - Income qualification of future tenants is determined upon initial occupancy only. Thereafter, increased incomes of tenants in affordable units will not violate the program requirements.
- Enrolled ~~New and existing~~ buildings are eligible for energy efficiency and solar grants through the Minneapolis Health Department's Green Cost Share program.
    - The Minneapolis Health Department determines the grant rules, requirements, deadlines, and maximum funding amounts. For more information visit the Green Cost Share program's website: minneapolismn.gov/green-cost-share.
    - New construction projects seeking to participate in the 4d program are eligible to apply for funding to increase the efficiency of the building above current energy code. Up to 50% of the cost difference between current energy code requirements and one of the following certifications can be covered by the 4d program: ENERGY STAR, Department of Energy Zero Energy Ready, or Passive House Institute US (PHIUS). Funding per property is capped at $100,000. Costs will be reimbursed after project completion. Prospective projects shall be reviewed by staff on a pipeline basis during the pre-construction design phase.
- New construction projects subject to the City's inclusionary zoning ordinance and unified housing policy may be eligible for participation in the 4d Affordable Housing Incentive Program if they are doing on-site compliance without City assistance and they voluntarily exceed the ordinance requirements to meet the State of Minnesota's minimum Low Income Rental Classification (LIRC) requirements of 20% of units

affordable at 50-60% AMI, as shown in the table above. Such projects must utilize the inclusionary zoning form of Declaration of Restrictive Covenants and remain subject to all requirements of the Inclusionary Zoning ordinance and policy including, but not limited to the affordability period requirements (minimum of 20 years).

- New construction projects that are not subject to the City's inclusionary zoning ordinance and unified housing policy (e.g. projects with less than 20 units) may also be eligible for participation the 4d Affordable Housing Incentive program and will use the 4d program form of declaration of restrictive covenants.

The City will receive and review applications on an annual basis. The City expects to accept applications in the fall of each year in order to provide sufficient time to meet the State's LIRC application deadline in March of every year. Each property enrolled in 4d will receive a grant in the amount of $100 per unit, capped at $1000 per building.

Note: The City will 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 other properties that have rental housing license revocations or outstanding housing orders and reserves the right to deny applications that do not align with the City's housing policy goals.

Process and program requirements:

Step 1 (required):

- Property Owners will submit a 4d program application and rent roll, androll and sign a Participation Agreement with the City. The Participation Agreement includes a commitment to accept tenant based rental assistance and comply with affirmative fair marketing (including listing vacancies with Housinglink),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 any 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 (as outlined under enrollment criteria above) and the size of the units to restrict, with a minimum of 20% of the units restricted at the appropriate levels required by the program. 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 the 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 and for submitting annual compliance reports to the City of Minneapolis.**

Step 2 (encouraged):

- Contact the Center for Energy and Environment or Frontier Energy to receive a free energy assessment. Based on assessment results, the property owner can choose from a menu of energy efficiency. improvements and qualify for City and utility company subsidies and rebates that can cover up to 90% of project cost.
- Contact City staff to discuss Solar Energy incentives. For qualified properties, the City will provide an incentive of $0.40 per kilowatt hour on the 1st year of production, up to $50,000 (or as updated in current program documents).
- Contact City staff to discuss financial assistance with lead window remediation if lead windows are present at the property.

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:

30 Unit building

6 Low Income qualified units

-OR-

30 Low Income qualified units

$50,000 in total taxes

Package of Incentives:

$7,366 annual property tax savings (6 Low Income units)

-OR-

$36,830 annual property tax savings (30 Low Income units)

$1,000 grant from the City of Minneapolis

Green Cost Share Energy Efficiency Grant: up to $45,000 (assuming 100% of the units are enrolled) ~~$26,250~~

Green Cost share solar grant: $0.450/KWh x the first year's estimated electricity production.

Rent and Income Restrictions, Minneapolis 4d Affordable Housing Incentive Program
Rent and income limits based on 50-60% of the Twin Cities Area Median Income (AMI). Current rent and income limits are published on the City's website at ~~www.minneapolismn.gov/4d-~~www.minneapolismn.gov/4d incentive/income-rent

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

- Single room occupancy (SRO) housing, rooming houses and group homes have rent limits based on the number of bedrooms. For this type of housing, maximum rent limits are 60% of the published studio/efficiency rent that is affordable to households making 50% of Area Median Income.
- The City of Minneapolis will publish an annual rent and income schedule, based on the regional 50 and 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: Rent and Affordability limits~~Metropolitan Council website.~~
- Rent increases are limited to 6% annually unless there is turnover or the property owner provides evidence that a larger rent increase is warranted to address deferred maintenance or unanticipated operating cost increases (subject to City review).
- Rent increases remain limited to 6% annually even if there are changes to the household composition (for example, a new roommate, spouse, etc.)

Minneapolis 4d Program Compliance

Owners of properties enrolled in the 4d program must submit an annual compliance report to the City of Minneapolis that reports the income of any new tenants, as well as monthly rent charged. Additional details and compliance forms are available online at ~~www.minneapolismn.gov/4d-~~www.minneapolismn.gov/4d incentive/compliance. **Property owners are also responsible for submitting annual reapplication paperwork to Minnesota Housing to maintain their 4d(l) tax status.**

Field Code Changed

Compliance communications strategy

- At least one compliance workshop will be offered each year for 4d program participants.
- All new applicants to the 4d program, starting in 2020, are required to attend a mandatory training with City staff to understand compliance requirements.

Consequences for non-compliance
Rent is over the appropriate AMI limit or increases by more than 6% in one year without turning over to a new tenant

- Property owner is required to lower the rent and refund any rent overcharges to come back into compliance --- and provide an updated rent and income spreadsheet showing the new rent for that unit.
    - The property owner will not be able to claim Low Income Rental Classification (LIRC) status, also known as the 4d tax rate, on the out of compliance unit(s) for

the following year (e.g. if a unit fell out of compliance in 2023, the owner cannot claim LIRC for that unit when re-applying for LIRC status in 2024).

- The property owner must refund any rent paid by the tenant over the 50% AMI rent limit and/or over the 6% annual increase limit, back to the tenant. The property owner must provide a letter signed by both the property owner and the tenant stating that the rent has been returned to the tenant. The letter must specify the amount of rent returned. Scanned copies of letters can be emailed to: 4dprogram@minneapolismn.gov. ~~4dprogram@minneapolismn.g~~

Over-income tenant: a tenant moves in with an income over the appropriate AMI limit. Please note that all tenants in place before the effective date on declaration are not required to income qualify.

- Property owner will not be able to claim LIRC status on any out of compliance units the next application year, and cannot claim LIRC status for any year on that unit until an eligible tenant moves into the unit. (e.g. if a unit housed a noncompliant tenant at any time in 2023, the property owner cannot claim LIRC status for that unit when re-applying for LIRC status in 2024}.

Subletting and short-term rentals

- Short term rentals (less than 30 days} in 4d program units are not allowed.
- Subleases arranged by tenants are not allowed. However, the owner of the property may facilitate a subleasing arrangement as long as the income of the sublessee is verified prior to move-in, and is reported on the City's annual 4d compliance form.
- If a unit is subletting without income verification, or if short term rental activity takes place at a property, the owner cannot claim LIRC status for units with subleasing or short term rental activity.

All other violations of program requirements not specifically described above (e.g. the property's rental license falling into Tier 3 status, etc.) may result in a temporary or permanent loss of LIRC status for the units or property in question. Under all circumstances at least 20% of units in the building must remain compliant with the 4d program per the minimum requirements of the program guidelines or the entire property will lose 4d status either temporarily or permanently at the discretion of the CPED Director.

Additionally, property owners in default/noncompliant with the 4d program are not eligible to apply for 4d status on additional properties (either with the same entity or an affiliated entity} until such time as all noncompliant units are returned to compliance.

Modifications to 4d program commitments

- The declaration for the 4d program commitments runs with the property. If a property is sold, the declaration and ongoing affordability requirements are the responsibility of the new owner.

- The declaration requires owners to commit to maintaining the affordable units outlined in the declaration for a minimum of 5 years. After a property has enrolled in the program and complied with program guidelines for 5 years, property owners can reduce the number of units in the 4d program if they originally opted for a higher than required level of participation (minimum commitment of 20% affordable units} in the program. Under all circumstances at least 20% of units in the building must remain in the 4d(1} program per the minimum requirements of the program guidelines.
- Any other requested changes to the declaration, such as revisions to the Exhibit B document specifying which units in the building are restricted, should be submitted to: 4dprogram@minneapolismn.gov.

Questions?
For questions or more information about the 4d Affordable Housing Incentive Program, email 4dprogram@minneapolismn.gov or call 612-673-5055