

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 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 under Minnesota Statutes 273.13, subd. 25(e) and (f). The [first tier of valuation](#)

(\$162,000,000/unit as of 2020) on 4d rental properties is taxed at a rate approximately 40% less than 4a and 4b rental property.

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.
- 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.
- Existing buildings are eligible for City Green Cost Share funding up to a 90% cost share match and a maximum \$50,000 project cost.
- 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. Projects are also eligible for solar project funding of \$0.35 - \$0.40 per kWh annual production from the City of Minneapolis. 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 60% AMI. 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 each October through early January. 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 and for submitting annual compliance reports to the City of Minneapolis.

Step 2 (encouraged):

- Owners of properties in the 4d program can sign up to receive a free energy assessment by contacting the Center for Energy and Environment. Based on assessment results, the 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 up to 90% of project cost..
- Contact City staff to discuss Solar Energy incentives. For qualified properties, the City will provide an incentive of \$0.35-.40 per estimated annual kwh production for the 1st year of production, up to \$50,000.
- 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:	Package of Incentives:
\$4,000,000 Property	\$7,796 annual tax savings through enrollment in the 4d Program
50 Unit building	\$1,000 grant from the City of Minneapolis
26% Low Income qualified units	\$8,750 in utility rebates
\$74,969 in total taxes	up to \$26,250 in green initiatives cost share funds
\$35,000 in energy efficiency upgrades	Opportunity for solar energy installations, with ongoing City incentives at \$0.35 per annual kwh production

Modifications to declarations

- The declaration for the 4d program commitments runs with the property. If a property is sold the declaration is the responsibility of 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 4dprogram@minneapolismn.gov.

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). Current rent and income limits are published on the City website at www.minneapolismn.gov/4d.

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 60% of Area Median Income.
- 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](#).

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. Property owners are also responsible for submitting annual reapplication paperwork to Minnesota Housing.

Compliance communications strategy

- City staff are creating a compliance video to be released in 2020 with a focus on income verification and the annual compliance process. The video will be available on the City website and a weblink to the video will be sent to program participants.
- At least one In-person 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 60% AMI limit or increases by more than 6% in one year 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.
- For the 1st year that a property has units that are out of compliance
 - 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 2019, the owner cannot claim LIRC for that unit when re-applying for LIRC status in 2020).
 - The property owner must refund any rent paid by the tenant over the 60% 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 or to sophia.nelson@minneapolismn.gov.
- For the 2nd year that a property has units that are out of compliance
 - The property owner will not be able to claim LIRC status on the out of compliance unit(s) for the following year.
 - Property owner must refund any rent paid by the tenant over the 60% AMI limit and/or over the 6% annual increase limit.
 - Property owner will pay a \$500 annual fine to the City of Minneapolis for each unit that is out of compliance starting the 2nd year that a property has units that are out of compliance.

Over-income tenant: a tenant moves in with an income over the 60% AMI limit. Please note that all tenants in place before the effective date on declaration are not required to income qualify.

- For the 1st year that a property has units that are out of compliance
 - 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 2019, the property owner cannot claim LIRC status for that unit when re-applying for LIRC status in 2020).
- For the 2nd year, and for any additional years, that a property has units that are out of compliance
 - Property owner cannot claim LIRC status on out of compliance units.
 - Property owner must pay a \$500 annual fine for each out of compliance until an income eligible tenant moves in to that unit. Fines will be assessed annually after compliance reports are submitted on January 31, and fines will be due within 30 days of the notice of a fine.

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.

Modifications to 4d program commitments

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.

A property owner can also choose an "early opt-down" for any units enrolled in the 4d program if they pay a \$2,000 opt-down fee per unit removed from the program. Please note the following:

- This early opt-down fee applies to units removed from the declaration prior to the 5 year period as described in the declaration.
- The property owner can reduce the number of units after 5 years without paying an early opt-down fee.
- Under all circumstances at least 20% of units in the building must remain in the 4d program per the minimum requirements of the program guidelines.

Questions?

For questions or more information about the 4d Affordable Housing Incentive Program [please](#) email 4dprogram@minneapolismn.gov or call 612-673-5055