



## Property Tax Reduction and Sustainable Rehabilitation Grants Program Guide

Healthy, stable, and affordable housing is important for the well-being, prosperity, and security of Edina residents. Due to housing, economic, and demographic trends, The available of affordable housing in Edina is insufficient to meet the demand. In addition, already burdened low and moderate income tenants are increasingly paying more than 30 percent 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. The goal is to preserve affordability, reduce energy use and create healthier homes to support tenants and strengthen the bottom line for property owners.

### **Purpose:**

- Incentivize owners of Naturally Occurring Affordable Housing (NOAH) with buildings containing four units or more to keep their rents affordable in exchange for property tax savings;
- Reduce property tax obligation on affordable housing units;
- Improve the energy efficiency of an aging rental stock to improve longevity and reduce operating costs.

To qualify for the Low Income Rental Classification, also known as “4d property tax classification”, the federal government, state of Minnesota or local unit of government must provide financing to the rental housing property as evidenced by a document recorded against the property. This pilot program provides City financing in exchange for a land Declaration for long term affordability.

### **Program Description:**

There are two components to this pilot program:

1. Grant from the City to enroll in the State’s 4d program. This grant is \$100 per unit and capped at \$5000 per building.
2. Grant to improve energy efficiency of the property with grants providing 90% of the costs, after rebates, up to \$30,000.

In exchange for the grant, the property owners will sign a Declaration to keep the property affordable for 15 years.

### **Who is eligible?**

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

- At least 20% of the rental units are occupied by, and are affordable to, households whose family income is at or below 60% of the Area Median Income.
- Buildings must have at least 4 units total.
- 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.

**Program Component #1(required):**

Qualified building owners, with buildings having at least four units, that agree to keep a minimum of 20% of units per building affordable to households making up to 60% of Area Median Income (AMI) will receive 40% property tax reduction on qualifying units (Low Income Rental Classification, also known as “4d property tax classification”).

**Benefits:**

- The City will pay the first year application fee to the State of Minnesota for certification of the 4d property tax classification out of a grant to each 4d property, in the amount of \$100 per affordable unit, capped at \$5,000 per property.
- The owners will receive a reduced property tax obligation.
- Existing and potential tenants will have preserved affordable units for 15 years.

**Definition:**

Non-4d apartments have a tax capacity of 1.25%

Units classified as 4d that are valued at \$139,000\* or less have a tax capacity rate of 0.75%

Units classified as 4d that are valued greater than \$139,000\* have a tax capacity rate of 0.25%

\* This number is subject to change each year. This is the first tier for taxes paid in 2018

**Example:**

25 unit building constructed in 1968 valued at \$3,250,000 or \$130,000 per unit.

**Non-4d property taxes paid in 2018:**

\$3,250,000 x .0125 = 40,625 tax capacity

Taxes = \$52,630

Scenario 1: 6 units, 24%, classified as 4d and the remaining 19 units are market rate, or non-4d

6 x \$130,000 = \$780,000 X .0075 = 5,850 tax capacity

19 x \$130,000 = \$2,470,000 x .0125 = 30,875 tax capacity

36,725 tax capacity

Taxes = \$47,836 (\$4,794 savings)

Scenario 2: 100% of the units are affordable and classified as 4d

$\$3,250,000 \times .0075 = 24,375$  tax capacity

Taxes = \$32,658 (\$19,972 savings)

### **Process and program requirements:**

#### **• Step 1 (required):**

- Property Owner will submit a 2-page 4d program application and rent roll, and sign a Participation Agreement with the City.
  - Participation Agreement includes commitment to accept tenant based assistance and affirmative fair marketing, and prohibits involuntary displacement of existing tenants.
- City will draft and record a declaration against the property that limits the rents and incomes on the qualified units for 15 years. Property owner must limit rent increases to 6% or less annually, unless the owner provides evidence that a larger rent increase is needed to address deferred maintenance or unanticipated operating cost increases, and city staff approve an alternative schedule for rent increases (a recorded document is required for 4d tax classification status).
- City will provide a grant to each 4d property, in the amount of \$100 per affordable unit, capped at \$5,000 per property. This funding is intended to help property owners cover the cost of the 4d administrative and reporting requirements associated with the program.
- 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 and evidenced by financial burden, the City will approve a reduction of the percentage of restricted units to the minimum level of 20% of the units per building.
- Property owner will sign 4d application once declaration is filed.
- City will submit 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.

#### **Program Component #2 (optional):**

##### **Benefits:**

- Free energy efficiency and healthy home assessments available to buildings with 4 or more units
- City grant up to \$30,000 offered for the cost of energy efficiency and healthy homes improvement identified in the free assessment.
- Increases tenant comfort.
- Lower maintenance and operating costs.

#### **• Step 2 (encouraged):**

- Sign up for the Multi-Family Building Efficiency Program through Xcel Energy and CenterPoint Energy and complete a free energy assessment to receive an Energy Report of recommended improvements.

- **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 qualifies owners to receive 25%-80% cost rebates of energy efficiency project expenditures from the utility companies if owners have at least 15% savings.

• **Step 3 (encouraged):**

- Following a free energy assessment, meet with the City and Center for Energy and Environment (CEE) to discuss energy efficiency upgrades. Property owner can choose from a menu of energy efficiency/weatherization/healthy homes improvements and qualify for City grants that when paired with utility rebates can cover 90% of costs up to \$30,000.
  - **Benefit to owner:** Receive public recognition for their partnership with the city and receive help covering the cost of energy efficiency upgrades.

**Who is CEE?**

Center for Energy and Environment (CEE) is a 501(c)(3)-designated nonprofit organization. Since the 1980s, CEE has pursued its mission through a variety of innovative programs and services in and outside of Minnesota. CEE's mission is to promote energy efficiency to strengthen the economy while improving the environment. Data-driven and community-engaged, CEE's staff are passionate to discover and deploy the most effective solutions for a healthy, low-carbon economy through several channels. CEE is currently administers Home Energy Squad (HES) which completes energy assessment on single-family, townhomes, and condos. Edina has been partnering with HES since 2013 to subsidize these visits for Edina residents. CEE also provides support to the Minneapolis' energy efficiency in 4d program.

**What does annual compliance involve?**

- To continue to receive 4d status Property Owner is required to submit an annual 4d application to Minnesota Housing as well as an annual report to the City in a form provided by the City.
- The owners need to complete these items on an annual basis to remain eligible for 4d tax status.

**Notes on Area Median Income (AMI), and annual updates to rent and income restrictions:**

The City of Edina 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.

**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

## **Modifications to declarations**

The declaration for the 4d program commitments runs with the property. Anyone buying and selling 4d property should contact Stephanie Hawkinson, [shawkinson@edinaMN.gov](mailto:shawkinson@edinaMN.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 Stephanie Hawkinson.