

HOUSING AND REDEVELOPMENT AUTHORITY OF THE CITY OF SAINT PAUL, MINNESOTA

REPORT TO THE COMMISSIONERS

DATE: OCTOBER 12, 2022

REGARDING: APPROVAL OF GUIDELINES FOR THE 2023 4D AFFORDABLE HOUSING
INCENTIVE PROGRAM.

Requested Board Action

1. Approval of the 4d Affordable Housing Incentive Program Guidelines for the 2023 program year, as amended from those for the 2022 program year.

Background

One of the City’s most important housing strategies is to preserve existing affordable housing. In fact, every year we lose more affordable housing than we are able to build. One of the most cost-effective ways for the City to support preservation of what is referred to as naturally occurring affordable housing (NOAH), is through its local 4d program. The 4d Affordable Housing Incentive Program (the “4d Program”) has been key to that objective since the HRA launched its first enrollment cycle for 2019. Across four annual enrollment cycles since that initial launch, the HRA has secured 10-year commitments on 2,224 rental units in Saint Paul for both *occupation by* and *affordability to* low-income households earning up to 50% or 60% of Area Median Income.

The 4d Program’s “incentive” to owners is its function as a pathway to qualifying their rental properties to the tax-reduced 4d, or “low-income rental” classification (“LIRC”), which reduces the assessed tax obligation of an affordable unit by up to 40%. Since this reduction is conditional on recording affordability restrictions against the property, 4d/LIRC qualification is typically reserved for large-scale subsidized multifamily developments (e.g. under Sections 8 and 42). By contrast, the 4d Program leverages that same Minnesota state statutory provision—through satisfaction in the terms of enrollment—to capture a much larger, diverse, and otherwise excluded pool of *unsubsidized* NOAH rental property. The recorded 4d declaration on 4d properties has

qualified an annual average of 550 rental units per program year to a decade of preservation for low-income households, while providing significant tax reduction for owners willing to preserve the affordability of their units. These outcomes are detailed as follows:

4d PROGRAM OUTCOMES BY YEAR									
4d Program Year	# of Properties Enrolled	# of 4d Units Preserved	# of 4d Units at 60%AMI	# of 4d Units at 50%AMI	Total Taxes Paid/Due	Estimated Total Property Tax Reduction	Per Unit	Estimated City portion of Property Tax Reduction	Per Unit
2019	66	410	230	180	N/A*	N/A*	N/A*	N/A*	N/A
2020	89	728	406	322	\$1,009,902	\$259,480	\$633	\$78,494	\$191
2021	71	611	432	179	\$2,437,566	\$755,654	\$664	\$221,413	\$195
2022	63	495	406	90	\$3,456,654	\$1,080,369	\$558	\$367,908	\$190
TOTALS	289	2,244	1474	771					

The 4d Program budget provides the funding necessary to carry out the program and is funded entirely through the Housing Trust Fund. This funding is primarily dedicated to the award of direct grant funding provided to the owner of each enrolled property—as a per-unit amount, up to a maximum of \$1,200 per enrolled property. Further 4d Program funds are also expended on behalf of owners to cover fees related to title/ownership verifications, Minnesota Housing’s LIRC applications, and Ramsey County Recorder’s Office fees (for between \$81 to \$221 per property), as well as 4d Program marketing expenses.

The proposed 2023 Housing Trust Fund Budget, as a part of Board approval of the 2023 HRA budget later this year, will reflect \$25,000 to support the cost of running the program.

Proposed 2023 4d Program guidelines are very similar to the 2022 program guidelines. There is one substantive revision staff is proposing, which would eliminate a requirement related to which units an owner could enroll. There is also one clarifying revision. Both changes are described below:

- **Suspension of Requirement on 50+ Unit Properties for Diverse Unit Mix**

With guidance from the City Attorney’s Office, staff recommend that the 4d guideline requirement that properties of 50 or more units must commit to a “diverse distribution” of unit types be removed. Staff has not identified a financial or other policy reason to restrict how an owner decides which units to enroll in 4d, and the CAO has advised that the policy would be problematic to implement.

- **Compliance and Procedural Refinements**

Staff is proposing more explicit language in 4d Program materials to refine and clarify ongoing compliance requirements including direction for owners on how to remedy noncompliant 4d status, should they fall into default of the 4d Agreement. This includes:

- Prohibition of short-term (less than 30-day) rental activity, which falls under a separate (and mutually-exclusive) tax classification than that of 4d.
- Specified direction for owners on acceptable documentation required to qualify tenants’ household income prior to turnover of a 4d unit under a new lease.
- Required documentation, deadlines, and procedure for verifications and remedies of any units’ noncompliant status.

Budget Action

There is no budget action at this time. Funds to operate the program will be included in the 2023 HRA budget proposal that will come before the Board later this year.

Future Action

Funds to operate the program will be included in the 2023 HRA budget proposal that will come before the Board later this year.

Financing Structure N/A

PED Credit Committee Review N/A

Compliance N/A

Green/Sustainable Development N/A

Environmental Impact Disclosure N/A

Historic Preservation N/A

Public Purpose/Comprehensive Plan Conformance:

The 4d Program meets objectives of the Housing chapter of the City's 2040 Comprehensive Plan, including the following Policies in particular:

- H-16 – Increase housing choice across the city to support economically diverse neighborhoods.
- H-32 – Continue to use City/HRA resources to support affordable rental housing citywide with at least 30 percent of the total rental units (both market-rate and affordable) financially assisted by the City/HRA being affordable to households earning 60 percent or less of AMI.
- H-39 – Promote preservation of existing income-restricted affordable housing units to ensure continued affordability of those units.
- Policy H-41. Consider use of official controls to require affordable housing to achieve mixed-income neighborhoods.

Recommendation:

Staff recommends approval of the 2023 4d Affordable Housing Incentive Program Guidelines as presented.

Sponsored by: Chris Tolbert

Staff: Luke Odenthal

651-266-6647

Attachments

- **2023 4d Program Guidelines**