

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

REPORT TO THE COMMISSIONERS

DATE: SEPTEMBER 27, 2023

**REGARDING: APPROVAL OF AMENDED GUIDELINES AND OF FUNDING FOR THE
4D AFFORDABLE HOUSING INCENTIVE PROGRAM FOR THE YEAR
2024, CITYWIDE**

Requested Board Action

1. Approval of the 4d Affordable Housing Incentive Program Guidelines for the 2024 program year, as amended from those for the 2023 program year.
2. Approval of **\$75,000** of the Housing Trust Fund to be allocated to the 4d Affordable Housing Incentive Program for administration of the 2024 program year.

Background

The Housing and Redevelopment Authority of the City of Saint Paul established the 4d Affordable Housing Incentive Program (the “4d Program”) in 2019 as a key tool to address the need to maintain and protect affordable housing in the City. The 4d Program aims to preserve the affordability of Saint Paul’s Naturally Occurring Affordable Housing (NOAH) stock by providing property owners with an avenue to attain “4d/LIRC” (“Low-income rental classification”) tax status.

The 4d Program offers Saint Paul NOAH property owners an avenue to receive the 4d/LIRC lower class tax rate that is used for large-scale subsidized multifamily development (e.g. Low Income Housing Tax Credit or LIHTC developments). To enroll, property owners must commit to preserving a minimum number of a building’s units for affordability to low-income households earning up to 50% or 60% of Area Median Income. Owners must sign a Declaration of Restrictive Covenants and commit to a ten-year rent and tenant income restriction tied to the units in order to receive the 4d/LIRC tax class rate which, to date, has meant up to a 40% reduction in their property tax obligation. Since the introduction of the program in 2019, the HRA has secured restrictions on 375 properties and over 3,000 units across 5 enrollment cycles.

Earlier this year, Minnesota lawmakers enacted legislation that made changes to the state's 4d policy, including a further reduction of the 4d/LIRC class tax rate. Previously, the class tax rate was 0.75% for the first market tier at \$100,000 per unit and any remaining value above that threshold was assessed at 0.25%. The amendment to Sec. 15. Minnesota Statutes 2022, section 273.128 states that, beginning with assessment year 2024, the 4d class tax rate will be 0.25% for the entire unit valuation. While the previous rate was 40% lower than the typical apartment rate of 1.25, the new class rate for 4d is 80% lower than the typical apartment rate, beginning with taxes payable in 2025.

In addition to the class rate change, legislators introduced language specifying that property owners must use the tax savings for a particular purpose, including but not limited to: property maintenance, property security, improvements to the property, or increases to the property's replacement reserve account. To maintain their 4d classification, property owners "must annually reapply and certify to the Housing Finance Agency that the property tax savings were used for one or more eligible uses."

In addition, Minnesota legislation now requires property owners to receive approval by the governing body of the city (i.e. the City Council) before applying to Minnesota Housing (MHFA) for initial 4d classification if the net tax capacity of 4d properties in that City exceeds 2% of the city's total net tax capacity in the prior assessment year. Staff are in communication with Minnesota Housing Finance Agency to ensure adherence to this requirement and plan to bring a resolution to the City Council in early 2024 to pre-approve new units for initial 4d classification by MHFA.

The 4d Program budget funds the administration of the program as well as the very modest one-time grant provided for property owners enrolling in the program, which is required by the authorizing statute. Funds are used to cover the cost of fees for new enrollees: Minnesota Housing's LIRC Application, title/ownership verification reports, and Ramsey County's Recording fee and grants of \$100 per unit and a maximum of \$1,200 per property.

Staff developed the attached 4d Affordable Housing Incentive Program Guidelines to guide the 4d Program's administration through 2024 and beyond, subject to future updates on an as-needed basis.

The following proposed modifications to the 4d Program Guidelines focus on addressing recent legislative changes and streamlining how the program is administered. Additional details are included within the program guidelines document attached to this report.

- Guidance that reflects Minnesota legislative changes described previously.
- Guidance that clarifies rules and requirements around 4d sales to tenants and in situations when an 4d owner assumes tenancy (owner occupancy) of a 4d unit.
- Guidance on an exception to 4d program rules limiting participation to properties with an A or B fire inspection grade. If a property has a Rental Rehab loan and C grade, 4d status will be approved and the 4d declaration will be recorded only after rental rehab loan proceeds have been fully disbursed, rehab work is complete, and the property has received at least a C fire inspection grade from DSI, consistent with the minimum requirements of the Rental Rehab program.
- Guidance that clarifies when and how rent increases beyond 3% may be requested, as 4d properties are exempt from RSO.
- Guidance for property owners on how to calculate utility allowances. Specifically, the new guidelines specify a predetermined Saint Paul 4d Utility Allowance Percentage, based on building type and unit size, to incorporate into rent roll calculations. Owners may also choose to provide their own utility amounts if the actual utilities charged are less than the Saint Paul 4d Utility Allowance Percentage.

Budget Action

The attached Financial Analysis form amends the 2023 Housing Trust Fund budget, allocating \$75,000 for the 2024 4D Program.

Future Action N/A

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.
- H-41 – Consider use of official controls to require affordable housing to achieve mixed-income neighborhoods.

Statement of Chairman (for Public Hearing): NA, no public hearing.

Recommendation:

Staff recommends (1) approval of the modified 4d Program Guidelines for program year 2024 as presented, and (2) allocation of **\$75,000** (to be added to the current balance of \$58,063) of the Housing Trust Fund to the 4d Affordable Housing Incentive Program, for a total budget of \$133,063 in the year 2024.

Sponsored by: HRA Board Chair Tolbert

Staff:

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Attachments

- **2024 4d Program Guidelines**
- **Financial Analysis**