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## **S.F. No. 3945 – Reducing Class 4d Classification Rate; Requiring Municipal Approval; Authorizing Transition Aid; Appropriating Money**

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**SF 3945** reduces the class rate for all class 4d property, requires municipal approval before applying for class 4d designation, and provides for transition aid for certain cities.

**Section 1. Approval.** Requires a property owner receive approval by the governing body of the city or town where the property is located before applying to the Minnesota Housing Finance Agency (MHFA) for class 4d designation, for property that was not, in whole or in part, classified as class 4d prior to assessment year 2023. A property owner that received the required approval under this section, and the required certification from the MHFA, is not required to seek approval prior to applying in each subsequent year. Effective beginning with assessment year 2023.

**Section 2. Application.** Adds the approval requirement from Section 1 to the application submitted to the Housing Finance Agency for class 4d designation. Effective beginning with assessment year 2023.

**Section 3. Class 4d; class rate.** Sets the class rate for all class 4d low-income rental properties at 0.25%. Under current law, class 4d properties are subject to two valuation tiers per rental unit: a class rate of 0.75% on the first-tier amount and a class rate of 0.25% on the value exceeding the first-tier amount. Effective beginning with assessment year 2023.

**Section 4. Class 4d; transition aid; appropriation.** Provides transition aid in 2024 and 2025 only for cities in which the net tax capacity of 4d property exceeds two percent of the total net tax capacity in assessment year 2022. The department of revenue calculates the transition aid as a function of the city's pay 2023 tax rate and an approximation of the reduction in 4d net tax capacity attributable to the classification rate and first tier limit

changes effective beginning in assessment year 2023. The commissioner pays transition aid concurrent with local government aid payments in 2024 and 2025.